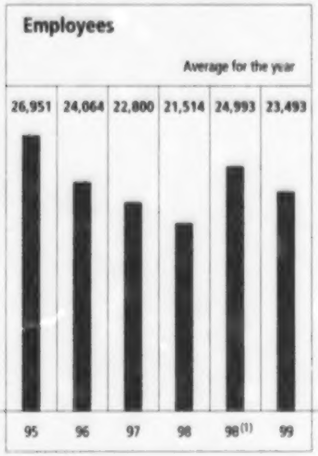
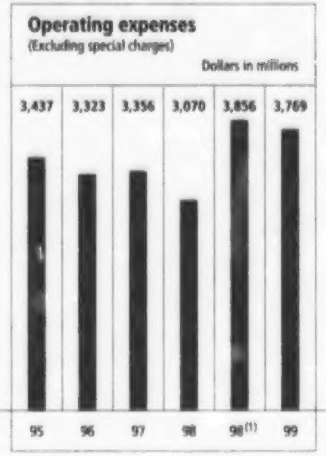
What if...

Canadian National 1999 Annual Report

Financial and statistical five-year summary



(1) Pro forma



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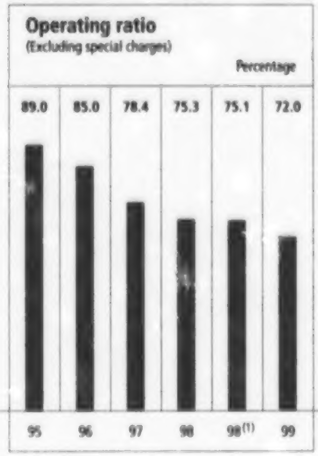


(1) Pro forma

$ in millions, except per share data, or unless otherwise indicated	1999	1998 Pro forma[1]	1998	1997	1996	1995
Financial results						
Revenues	**$ 5,236**	$ 5,137	$ 4,078	$ 4,283	$ 3,911	$ 3,862
Operating expenses excluding special charges	**3,769**	3,856	3,070	3,356	3,323	3,437
Special charges	**–**	590	590	–	365	1,415
Operating income (loss)	**1,467**	691	418	927	223	(990)
Operating income excluding special charges	**1,467**	1,281	1,008	927	588	425
Interest expense	**314**	331	242	117	113	194
Equity in earnings of Illinois Central Corporation	**–**	–	105	–	–	–
Other income	**55**	23	17	24	44	148
Income (loss) from continuing operations	**746**	253	224	469	848	(1,017)
Income from continuing operations excluding special charges	**746**	598	569	469	1,055	398
Capital expenditures	**936**	967	744	609	291	324
Diluted earnings (loss) per share from continuing operations[2]	**3.71**	1.31	1.21	2.72	4.94	(6.32)
Diluted earnings per share from continuing operations excluding special charges[2]	**3.71**	3.09	3.08	2.72	6.14	2.48
Rail operating ratio excluding special charges *(%)*	**72.0**	75.1	75.3	78.4	85.0	89.0
Statistical highlights						
Route miles *(includes Canada and the U.S.)*	**15,777**	16,911	13,741	15,292	17,124	17,918
Carloads *(thousands)*	**3,645**	3,483	2,456	2,547	2,315	2,295
Gross ton miles *(millions)*	**274,488**	263,470	216,501	228,353	208,328	204,143
Revenue ton miles *(millions)*	**143,613**	138,669	112,929	119,534	107,470	105,487
Rail employees *(average for the year)*	**23,493**	24,993	21,514	22,800	24,064	26,951
Diesel fuel consumed *(Canadian gallons in millions)*	**275**	284	234	272	259	256
Average price per Canadian gallon *(dollars)*	**$ 1.05**	$ 1.04	$ 1.08	$ 1.23	$ 1.22	$ 1.08

(1) Pro forma refers to the consolidation of the financial and statistical data of Illinois Central Corporation (IC) assuming the acquisition and control of IC occurred on January 1, 1998.
(2) Per share results reflect a two-for-one stock split that took effect in September 1999.

What if

What if

What if

There is such a railroad.

Contents

A message from David McLean

Chairman of the Board

Canadian National

Dear fellow shareholders:

Our business continues to grow and undergo significant change – it is an exciting time for CN.

The implementation of the merger with Illinois Central was a highlight of our 1999 performance. The smooth integration of the two companies is a tribute to the careful preparation and hard work of employees at both CN and Illinois Central.

We are very pleased with the results we have seen since the merger was approved. Our shippers continue to benefit from the excellent operational improvements at CN, and we are confident that these improvements will continue to increase over the next few years.

Clearly the announcement on December 20, 1999 of the Canadian National/ Burlington Northern Santa Fe combination agreement is the most exciting development in the history of freight railroading. The joining together of two of the world's most efficient railroads will certainly be good for our customers, our employees and our shareholders.

The Board appreciates the outstanding efforts of Paul Tellier, Hunter Harrison and all of CN's senior officers. Our employees right across the system have delivered on their commitments to make it our best year ever. CN's record operating results stand as a testimony to the skills and dedication of our people.

I welcome Hunter Harrison as a new member of our Board, and I acknowledge the total commitment and dedication of all members of the CN Board. I am proud of the fact that all of our directors are substantial shareholders of the Company, which closely aligns their interests with your interests. Nineteen ninety-nine represents the completion of my fifth year as Chairman – it has been a truly enriching experience.

We acknowledge the support of our shareholders. We could not have grown into North America's most efficient railroad without your continued endorsement. We look forward with you to the exciting developments ahead.

Sincerely,

David McLean

David McLean, O.B.C., LL.D.

Chairman of the Board

A message from Paul M. Tellier

CN President and

Chief Executive Officer

Dear fellow shareholders:

To say 1999 was another landmark year for the Company would be an understatement. It was a year in which CN built tremendous momentum in the drive to become the best railroad in North America.

Our merger with Illinois Central was approved. Integration proceeded smoothly and continues as you read this letter. The CN service plan began to show powerful results and potential to drive profitable growth. And we capped off the year with our announcement to join CN in a strategic combination with Burlington Northern Santa Fe (BNSF) to form North American Railways, Inc.

If approved by the U.S. Surface Transportation Board in 2001, as we are confident it will be, North American Railways, Inc. will become the best railroad in North America. The best for our customers, with greater reach and single-line access to more markets than any other railroad on the continent. The best for our employees, offering career opportunities that come from working for the undisputed leader in the industry. And the best for our shareholders, with great prospects for revenue and earnings growth.

"CN is North America's Railroad, with a unique franchise, operating philosophy and organizational structure."

Financially, our performance in 1999 was excellent. Excluding non-recurring items, and compared to 1998 pro forma financial results, net income for 1999 was $746 million, up 25 per cent from 1998 net income of $598 million. Diluted earnings per share in the current year increased 20 per cent to $3.71 compared with $3.09 in 1998. Year-over-year operating income increased as well, to $1,467 million in 1999 from $1,281 million in 1998, a 15 per cent betterment. Revenues for 1999 were $5,236 million, showing growth of 2 per cent over 1998 revenues of $5,137 million. Operating expenses in 1999 were $3,769 million, a 2 per cent decrease from $3,856 million in 1998. And our operating ratio was the best of all Class 1 railroads at 72.0 per cent, an improvement of 3.1 points from our operating ratio of 75.1 in 1998.

Once our merger with IC was approved, we proceeded immediately with our plan to integrate the two railroads. Our priority was, and remains, to complete it without compromising safety or customer service. The plan is a methodical, step-by-step, low-risk process – with no artificial deadlines – that is totally transparent to our customers. In 1999, we successfully integrated the networks, fleets and management teams.

Just as important as the integration of operations is the integration of cultures. My philosophy is this: It's very important to build on the diversity of our entire organization. Our challenge is to preserve the unique attributes of each company, combining them to create a stronger organization than either was before the merger.

We will pursue this same goal when we join forces with BNSF. Our approach will be to operate both railroads as unique entities while offering our customers the most efficient transportation service in North America.

More than ever, CN is North America's Railroad. We are fundamentally different from the other Class 1 carriers, with a unique franchise, a unique way of operating and,

starting in 1999, a new organizational structure. We are building on these attributes to serve our customers better, grow profitably and deliver value to shareholders.

The CN franchise is a more balanced mix of carload and unit train business than other railroads. We operate a highly efficient, integrated network that is ideally suited to grow north-south traffic connecting three coasts. Our CN service plan is rapidly setting new standards for precision, efficiency and reliability in the industry. And our recently implemented five-division business structure places more operations and sales decision-making at the local level, enhancing our ability to respond to customer needs and pursue new business opportunities with smaller and mid-sized shippers.

With our service plan and new divisional structure in place, we are developing new strategies to profitably grow our railroad. We intend to leverage our position as a single-line transborder carrier to more aggressively compete in North America. We are bringing our improved service offering and new management structure to bear on providing a viable alternative to truck traffic. We're developing value-added services to support our core rail business, and we've made it a priority to build our e-commerce capabilities.

We'll bring these attributes and strategies to our combination with BNSF. Our franchises perfectly complement one another. We share the same commitment to excellence in customer service. The end-to-end combination of our networks will create the most effective transportation system yet available for shippers throughout North America.

It was a year of transition for our management team, with Michael Sabia choosing to accept the position of vice-chairman and chief executive officer with Bell Canada International. His contributions as executive vice-president and chief financial officer at CN were outstanding, and we wish him well in his new pursuits.

Upon Michael's departure, the Board appointed Jeff Ward to the position of executive vice-president, strategic planning and Claude Mongeau as senior vice-president and chief financial officer. Jeff and Claude have worked closely with me at CN for a long time, and they've played key roles in the Company's success, from our restructuring and turnaround to the development and execution of our North American strategy. I have full confidence in both of them to guide CN through our ongoing drive to become the best North American railroad.

Every year I tell you we are a work in progress. Part of our culture is the strong belief that we will always be a work in progress – we must never reach a point where we feel CN has reached the final destination. Nowhere is this philosophy more important than in the area of safety performance. We need to do much better. From a safety point of view, 1999 was not a good year for our Company.

Safety is my preoccupation. For me, even one accident is one too many. There can be no compromise – our entire management team will rededicate our efforts in this area. We simply must be a safer railroad in 2000. Our customers expect it, our shareholders demand it and our employees deserve it.

It is with this objective in mind that we continued implementing, as a partner, the Responsible Care® program in 1999, in close cooperation with the Canadian Chemical Producers' Association (CCPA) and the Chemical Manufacturers Association (CMA) in the United States. Responsible Care® places the emphasis on continuous performance improvement while striving for improved employee health and safety, protection for the environment and protection for the communities where CN operates. We have adopted a highly aggressive action plan to ensure that we fully meet the requirements of the CCPA when they conduct their first verification in 2001. In the United States, we plan to complete implementation within three years, after which time we will ask the CMA to conduct a voluntary verification.

CN has but one goal: conduct our business in full compliance with the most demanding standards so as to ensure the safety of employees and the communities where we operate. This is a long-term commitment that we will keep.

We owe our successes in 1999 to those who helped us reach our goals. To all our employees throughout North America: You are the best in the business. The most skilled, the most dedicated, the most talented. You are our most important asset. Thank you for your hard work. To our customers: Our top priority is to safely meet our commitments to you – every day. We appreciate each opportunity you have given us to contribute to your success. And to our shareholders: From our Initial Public Offering four short years ago through our merger with IC and our proposed combination with BNSF, your support has made our success possible.

Stay with us, the ride is just beginning.

Yours truly,

Paul M. Tellier
President and Chief Executive Officer

A message from E. Hunter Harrison
CN Executive Vice-President and
Chief Operating Officer

To my fellow shareholders:

We initiated the service plan in September 1998, after an intense planning process of about four to five months. In the beginning, there was a lot of anxiety and skepticism among our employees – what we're doing is a significant departure from the norm in rail transportation. For the first time, a major North American railroad is running a scheduled operation across its entire network.

It's working. At first, 50 to 55 per cent of shipments made their schedules. We were at approximately 81 per cent through year-end, with 93 per cent arriving within 24 hours of the trip plan. We've reduced transit times by as much as 24 hours across the system. We're more productive in our terminals, with scheduled line, terminal and shop capacity contributing to the reduction of the peaks and valleys that can make our business so difficult.

And on the cost side, running a scheduled railroad has brought stunning results, such as large reductions in both our locomotive and railcar fleets, and a year-over-year improvement in car velocity of 16 per cent. When we can tell our customers when their cars will arrive, to within the hour, then we know where our assets are going to be. That enables us to more precisely manage our locomotives, cars and line capacity. And that means we need fewer assets to meet our customer commitments. Scheduling as a way of doing business benefits CN as much as it does customers. Simply put, with the service plan, it costs us less to provide more reliable service.

Employees are seeing these benefits, but more important is the fact that they have developed a passion for customer service. This is the most vital part of what we're doing here at CN. We're offering shippers what we as an industry have never been able to offer before: predictable, reliable, *high-quality* rail transportation service. That takes a great deal of effort and discipline – it takes a passion for this business, a strong desire to set new standards in meeting our commitments. We're making believers of our customers as our on-time performance improves, day by day, shipment by shipment. As we continue to build our track record, as we gain their trust, I believe we will see shippers award more and more of their business to CN.

The secret to railroading hasn't changed. In my experience, a railroad needs to embrace five core elements to succeed. One, you must provide good service. To the customer, quality service means doing what you say you'll do, every time. Two, manage your costs. Three, develop a strong emphasis on asset utilization. Four, accomplish the first three without getting anyone hurt. And five, develop your people – treat them fairly, train them and reward them when they excel – because without quality people, you can't accomplish the first four.

This is a growth story. By focusing on these five elements, we will grow. Our service plan is designed to address the first three. We will continue to improve our performance in the fourth, safety. Our new divisional organization is aimed at the fifth. The most important aspect of the new organization is the goal of improving service by placing decision-making closer to the customer, with local responsibility for operations

and sales. Further, each geographic division is responsible for managing its own financial scorecard, which assesses the division's contribution to revenues and expense control of the Company. We're convinced the entrepreneurial spirit this creates will drive profitable growth. We have found that the new organizational structure has changed the way CN employees are looking at our business – they're no longer just operations people or sales people, but business people, too.

"More than ever, CN employees are thinking not as operations people or as sales people, but as business people."

To coordinate the local sales force with our marketing efforts, we have promoted James Foote to the post of senior vice-president, sales and marketing. I am confident that he will be effective in driving our top-line growth initiatives. We're North America's Railroad. That's our strength. The CN network serves a corridor from Canada to the Gulf of Mexico, the NAFTA corridor, which supports rapidly growing north-south trade. And as we look forward to joining forces with BNSF, we'll add more north-south single-line corridors as part of their strong network in the western half of the United States. With our superior reach, if we continue to improve on our execution of the service plan and aggressively get the word out among shippers, the potential for growth is excellent.

As Paul has said, we are just beginning. North America's Railroad is leaving the terminal, and the destination is to be the best in the industry. Are you on board?

Sincerely,

E. Hunter Harrison
Executive Vice-President and Chief Operating Officer

What if we developed a different way of looking at service

The CN service plan

CN's service plan is at the heart of what makes us different. With it, we are delivering unprecedented reliability and quality of service to our customers, while focusing intensely on the efficient utilization of our assets. The CN service plan is our engine for profitable growth.

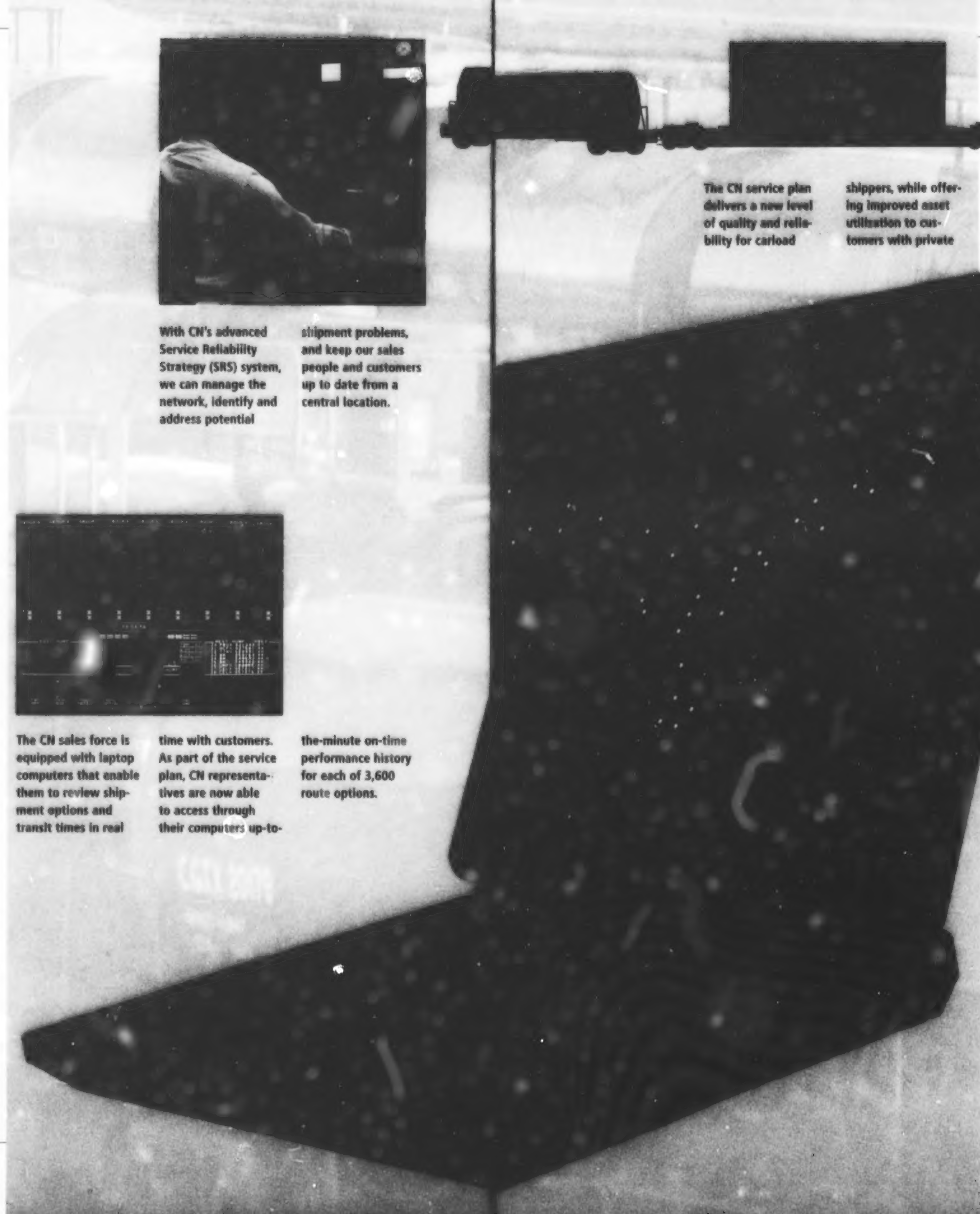
From a customer's standpoint, quality service means having the car, in good condition, at the shipping dock when promised, and getting the car with the shipment intact to the destination on time, at a fair price. Quality service is what the service plan is designed to provide.

With the service plan, we operate our network like a conveyor belt. Precise scheduling enables us to more evenly space trains, which results in smoother yard operations, reduces transit times and dramatically improves our ability to deliver reliable service and pricing that enhances customer competitiveness.

We have developed an electronic catalog that gives precise transit times, to the hour, dock to dock, for more than 3,600 routings. This is our product. Each account manager uses a laptop computer to review the product catalog with customers, providing information such as origin and destination, specific routing options and transit times for each option, to help them choose the routing that best fits their needs. Account managers can even add cars to certain trains to meet customer requirements.

With each car having an individual trip plan, the CN service plan is designed to deliver high-quality service for carload traffic. It also enables us to better serve customers with their own car fleets, giving them greatly improved car cycles and fleet productivity. In addition, the service plan offers many bulk shippers a viable alternative to unit trains, enabling them to route smaller, more frequent shipments, which can ease their destination logistics.

The service plan is unique, and it creates a win/win situation: high-quality service and competitive pricing for customers, more efficient operations and higher margins for CN.



With CN's advanced Service Reliability Strategy (SRS) system, we can manage the network, identify and address potential shipment problems, and keep our sales people and customers up to date from a central location.

The CN sales force is equipped with laptop computers that enable them to review shipment options and transit times in real time with customers. As part of the service plan, CN representatives are now able to access through their computers up-to-the-minute on-time performance history for each of 3,600 route options.

The CN service plan delivers a new level of quality and reliability for carload shippers, while offering improved asset utilization to customers with private fleets and enhanced flexibility to many bulk commodity customers.

The precision scheduling and improved asset utilization resulting from the service plan mean much smoother operations in yards and maintenance shops across the CN system.

What if the service plan changed everything?

Productivity, performance and confidence

The CN service plan is clearly working. By raising the bar for productivity and performance, the service plan has changed everything.

Efficiencies brought about by the service plan have enabled CN to effectively reduce its locomotive and railcar fleets by 650 and 12,700 units, respectively, all while increasing traffic volume. These dramatic improvements in asset utilization contributed to the best operating ratio among North American Class 1 railroads in 1999. And because some of the fleet reductions were achieved through storage, we retain the capacity to support growth in the future at very low incremental cost.

The service plan has positively impacted other performance measurements as well. Gross ton-miles per available horsepower, a measure of locomotive fleet efficiency, is up by 22 per cent. Car-miles-per-car-day, a measurement that reflects car fleet velocity, has increased by 16 per cent. Customers are beginning to take notice of system-wide improvements in average transit times, as well as our steadily improving on-time performance against car trip plans, which was 81 per cent as of year-end 1999 with a zero-tolerance buffer, and 93 per cent with a 24-hour buffer. These improvements have led to higher service standards in the rail industry.

The plan is transforming CN into an organization unlike anything seen in the history of railroads, with scheduled service across its entire network. As a result, new opportunities are opening up in our markets, specifically with smaller shippers that have not considered rail a viable transportation option before, either because of perceived carrier unreliability or the assumption that relatively low volume or frequency render it impractical. We are aggressively pursuing these opportunities.

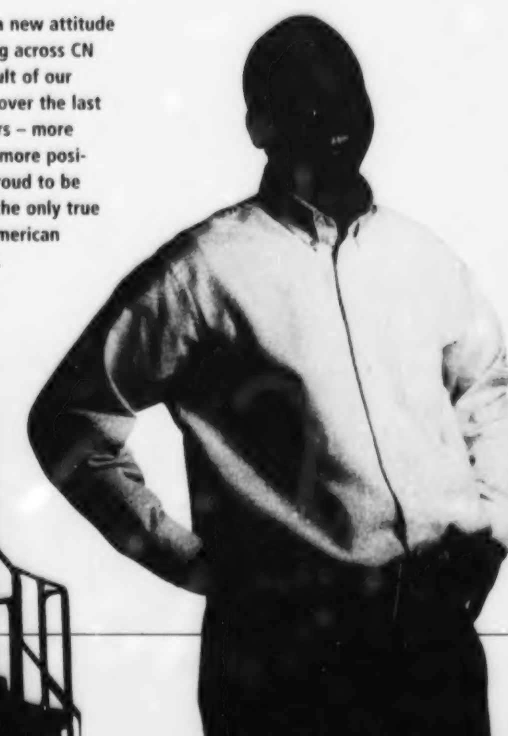
CN now is among the leaders in the industry. The early success of the service plan is starting to create a new sense of confidence and enthusiasm throughout the organization that comes from being associated with a winner. This new attitude is particularly valuable in our sales force. We now have an exciting new product to sell – a unique service offering coupled with an integrated, efficient, mainline network that supports major trade flows.

Automotive shippers have exhibited a higher level of confidence in CN since implementation of the service plan – resulting in steadily growing volumes.

The effective elimination of 650 locomotives from our fleet has left CN with a higher proportion of modern, efficient new locomotives, like the one shown here, one of the 40 General Electric Dash-9 models acquired in 1998.

Fort Saskatchewan, AB to Chicago	Joffre, AB to Montreal
Pre-service plan: **159** hours	Pre-service plan: **180** hours
Current: **103** hours	Current: **159** hours

The service plan has resulted, system wide, in an average reduction in transit times of nearly 24 hours.



There's a new attitude emerging across CN as a result of our success over the last few years – more upbeat, more positive – proud to be part of the only true North American railroad.

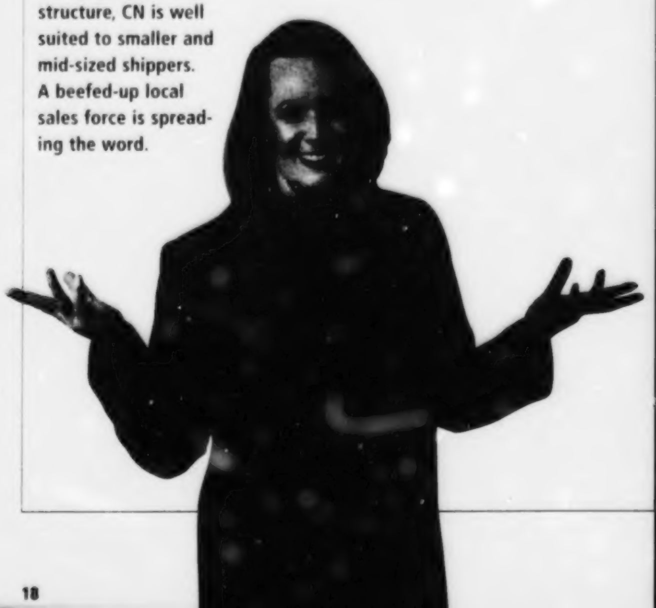
What if we refined our organization to make it work even better?

Organized for growth

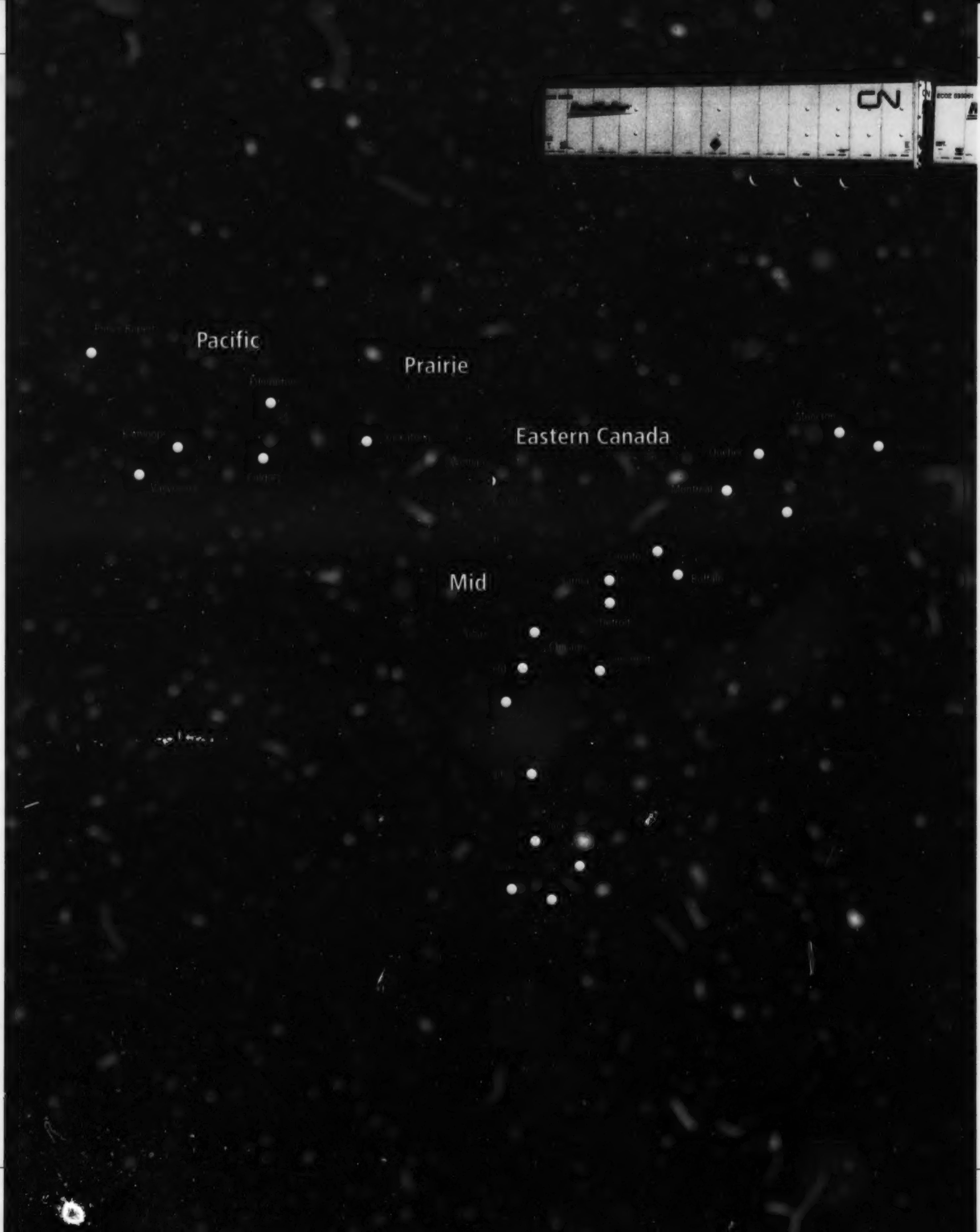
To support the service plan, in mid-1999 CN implemented a new corporate structure, dividing the organization into five geographic divisions, three in Canada – Pacific, Prairie and Eastern Canada – and two in the United States – Midwest and Gulf.

This new organization is designed to bring us closer to the customer – to improve service quality at the local level and enhance the service plan's ability to drive growth. While network management, marketing and management of our largest national account relationships remain centralized, we have established local responsibility for operations and sales in each division, with people on the ground to execute the service plan and build customer relationships.

Each division is accountable for its own business performance, including operational responsibility for yards, terminals, switching and facilities; maintenance of infrastructure and equipment; and account sales. For the first time, divisional sales staff are aligning their activities with operations to expand existing local customer relationships and develop new ones. And direct responsibility for the division's financial performance provides an incentive to ensure all new business is profitable new business.



With service quality at an all-time high and a new organizational structure, CN is well suited to smaller and mid-sized shippers. A beefed-up local sales force is spreading the word.



In 1999, we acquired 200 new RoadRailer™ trailers, unique bi-modal equipment that can travel on the highway with rubber tires and on rails with special steel "bogeys" – devices that enable the trailers to be pulled behind a locomotive in a train. This technology is a valuable tool for pursuing business currently handled by trucks.

With a relatively small number of customers accounting for a large proportion of our revenues, we identified a significant growth opportunity with smaller and mid-sized shippers. The new CN organizational structure, along with 40 positions in local sales, better enables us to pursue them. These customers typically have used trucks to haul their freight. Our strategy is to use the strengths of the CN network and improved service to offer a better alternative.

One way we are supporting this effort is an investment in 200 RoadRailer™ trailers, dual-mode equipment that can travel both on the highway and on the railroad. These trailers can be pulled on the rails in trains behind locomotives and then, without the use of cranes, can be attached to truck tractors and pulled off the tracks to the road. RoadRailer™ technology greatly enhances our ability to compete with trucks by combining the best of both modes – the flexibility of over-the-road transportation with the efficiency of trains.

Our new organization creates a more nimble and responsive CN at the local level, while providing customers with all the advantages of our network. We are better able than ever to leverage CN's unique strengths to broaden our business and serve our customers, as well as to deliver profit, growth and value to our shareholders.

Prior to the CN-Illinois Central merger, CN derived revenue from six business units – Industrial products; Forest products; Grain and grain products; Coal, sulfur and fertilizers; Intermodal; and Automotive – organized into three groups, Merchandise, Bulk and Intermodal/Automotive. The Company's new business unit structure is based on the business mix created by the CN-IC integration. This structure, as outlined below, is well positioned to respond to changing market conditions and transportation requirements.

Petroleum and chemicals

One of CN's fastest-growing business units, petroleum and chemicals comprises a wide range of commodities, including chemicals, plastics, petroleum and gas products. Most of the shipments we move are destined to customers in Canada via CN's eastern and western corridors to the Chicago gateway, and in the United States via CN's north-south route from Chicago to the Gulf of Mexico.

Metals and minerals

CN's metals and minerals business consists primarily of nonferrous base metals, steel, equipment and parts. Exclusive access to major mines and smelters throughout North America makes CN a leader in the transportation of copper, lead, zinc concentrates, refined metals and aluminum.

Forest products

CN is the largest carrier of forest products in North America. This is CN's second-largest business unit, comprising a broad spectrum of products and meeting a wide range of customer requirements. The product lines include various types of lumber, panels, wood chips, woodpulp, pulpwood, printing paper, linerboard and newsprint. In Canada, CN enjoys superior access to the major fiber-producing regions that have positioned Canada as the world's largest exporter of forest products. With the IC merger, CN now is strategically located to serve both the northern and southern U.S. corridors with interline capabilities to other Class 1 railroads.

Coal

CN offers efficient rail transportation throughout North America to help customers compete effectively in the global marketplace. Coal shippers benefit from CN's low grades over the Rocky Mountains – the lowest on the continent – as well as superior access to the Canadian west coast and ports in the southern United States. A majority of the traffic that originates in western Canada is exported overseas from the ports of British Columbia. Traffic originating in the Illinois Basin is used for domestic U.S. consumption.

Grain and fertilizers

This is CN's largest business unit. Grain and fertilizer revenues are derived primarily from transporting commodities grown in western Canada and the midwestern United States. The majority of grain and grain products produced in Canada and carried by CN are for export through the west coast ports of Vancouver and Prince Rupert or through Thunder Bay on Lake Superior. In the United States, CN handles grain grown in Illinois and Iowa for export through center Gulf ports and to barge loading facilities located on the river system, as well as to domestic processing facilities and feed markets. CN also serves producers of potash, ammonium nitrate, urea and other fertilizers.

Intermodal

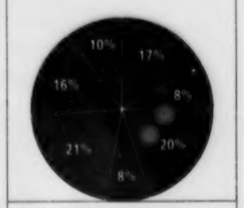
CN's intermodal business consists of two product segments. The first segment, domestic, is responsible for consumer products and manufactured goods, operating through both retail and wholesale channels. The second, the international segment, handles import and export container traffic, serving the ports of Vancouver, Montreal, Halifax, Mobile and New Orleans.

Automotive

CN is a leading carrier of automotive products originating in southwestern Ontario and Michigan. This business unit moves both finished vehicles and parts within the United States, Canada and Mexico. CN also serves shippers of import vehicles via the ports of Halifax and Vancouver, and through interchange with other railroads.

Freight revenues

1999 percentage data



17% Petroleum and chemicals
8% Metals and minerals
20% Forest products
8% Coal
21% Grain and fertilizers
16% Intermodal
10% Automotive

1999 data

Freight revenues	(In millions)
Petroleum and chemicals	$ 878
Metals and minerals	398
Forest products	995
Coal	402
Grain and fertilizers	1,066
Intermodal	810
Automotive	483
Revenue ton miles	(In millions)
Petroleum and chemicals	24,194
Metals and minerals	9,271
Forest products	27,500
Coal	18,645
Grain and fertilizers	38,681
Intermodal	22,589
Automotive	2,733
Freight revenue per revenue ton mile	(In cents)
Petroleum and chemicals	3.63
Metals and minerals	4.29
Forest products	3.62
Coal	2.16
Grain and fertilizers	2.76
Intermodal	3.59
Automotive	17.67

"Little Obie" joins CN from the former IC to teach kids about rail safety

CN has long been an enthusiastic participant in Operation Lifesaver, a public education program to teach people about level crossing safety and the hazards of trespassing on railroad rights-of-way throughout North America. Operation Lifesaver is a program that represents a marriage of CN's commitment to its communities and its absolute dedication to operating a safe railroad.

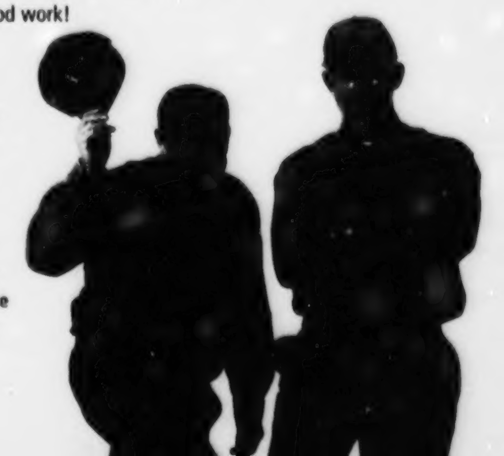
As part of the former IC railroad, Little Obie has also been active in Operation Lifesaver. Who's Little Obie? He's shown in the picture above, the one in black. He's a strikingly accurate scale model of an IC locomotive, complete with a piggyback intermodal flatcar and a caboose, and he's a very effective tool for raising awareness among children of railroad crossing safety issues and the dangers of playing near the tracks.

Little Obie was the brainchild of Paul Rose, an employee at the former IC's Memphis shops. Paul saw a small replica train as an excellent way to promote Operation Lifesaver with children. He designed and built it himself – it took approximately six months to construct, including a towing trailer used to transport it from location to location. The train was named after Donald O'Brynt, a longtime employee and safety director at the former IC who recently retired after 35 years of service. Little Obie got his number, 1914, from the year the former IC's Memphis roundhouse was built.

Mounted on top of a John Deere Gator utility vehicle, Little Obie is authentic down to the detailed operator's cab, working headlights, ditch lights, air-operated windshield wipers and PA system. And with a high-powered compressed air horn, you can bet Little Obie makes a big impression on kids.

Employee volunteers keep a busy, year-around schedule, conducting programs at schools, parades, county fairs and other community events within our network across North America. They set up crossings and let children participate in various situations, sometimes behind the wheel of toy cars, to learn important lessons in rail crossing safety. In 1999, two such volunteers, Paul Rose and Carl Shields, won a CN President's Award for Excellence in the Exceptional Community Service category in recognition of their efforts and impact.

We are very pleased to have Little Obie as part of the CN fleet – he's an excellent example of the level of commitment to our communities we all share, and the importance of building creative partnerships to meet common goals. Welcome to CN, Obie! And keep up the good work!



Little Obie was conceived, built and is today maintained and taken around the country by employees. It's just one way our people voluntarily contribute to the communities we serve.

1999 President's Awards for Excellence

"In the six years since I established this program, I have been continuously impressed by the quality of the nominees and winners. The commitment shown by CN employees combined with the ingenuity, creativity and skill that exist within this Company demonstrate why, to a large extent, we are the best railroad in North America."
– Paul M. Tellier

Category 1: New business opportunities

Husky/Trans-Canada Midstream Team
Greg Kendall, Lonny Kubas, Peter Ladouceur, Ron Payne, Sherri Stark, Roger Stenvold

This team clinched a contract with what at first seemed like two unconnected customers. Team members put their heads together to come up with a proposal that beat out the competition and won CN millions of dollars in new business.

Category 2: Safety

Kevin Smith

When it comes to his fellow employees' health and safety, Kevin displays exemplary dedication and leadership. Believing that accidents can be prevented if a train's staff is knowledgeable about the equipment on board, he developed – and teaches – an Emergency Passenger Evacuation Training Program for Toronto's GO Train personnel. Kevin has been associated with Health & Safety and Employee & Family Assistance Program committees and volunteers his time to help children with disabilities and the elderly.

Category 3: Exceptional service

Internal – *Brian Nesbitt*

Brian played a major role in the revitalization of the Employee & Family Assistance Program across the CN system. His knowledge, experience, enthusiasm and tremendous ability to work well with management and union employees alike have helped to make his contribution to EFAP invaluable.

External – Assigned Switcher #502 team
Bryan Schick and Jim Daunheimer

Nothing stops conductor Bryan Schick and brakeman Jim Daunheimer from providing superior customer service when they go on site at the PCS Potash rail yard. Not 40-degree-below-zero temperatures or rain, snow and sleet. The team provides timely service, communicates well and is highly appreciated for their professionalism and dedication. In fact, it was actually the customer that nominated them for this award.

Category 4: Bravery/Exceptional community service

Carl Shields and Paul Rose

Through demonstrations using Little Obie, a miniature locomotive designed and built by Paul, Carl and Paul have educated thousands of children and adults on rail crossing safety and have spread goodwill and a positive image for the railroad. "I believe the best way to reach people is through their children," says Paul.

Category 5: Operational breakthrough

Paul Massicotte

Paul created a user-friendly computer-based program that allows users to create a hump plan based on many criteria, resulting in increased efficiency in hump yard management. Other yards have shown an interest in the new tool, which can be adapted for use in flat yards as well.

Category 6: People management

Dave Szerencsei

Dave's role as coach to a concrete tie repair crew was critical in increasing group morale. His management style – based on trust and openness – has resulted in an increase in commitment to goals, better accountability for performance and an improved attitude.

Category 7: Cost effectiveness

Rick Maltby

Rick introduced a standardized weld repair splice bar, saving the Company $1 million in the first year alone. While similar bars had existed for some years, they were never approved by the regulator. Rick took the matter in hand, worked with a company to develop a prototype, made the necessary modifications, got the funding needed to manufacture the bars and wrote the recommended method for their use.

Category 8: Quality improvement

Wayne Randell and team: Carol Anderson, Claude Auger, Michael Biswas, Bryan Lutes, Alan MacNab, Gerry McCulloch, Sylvia McDonald, Carol Ann Ross, John Straznicky, Howard Stevens, Clara Young, Maureen Zacharuk

Wayne and his team went beyond expectations by obtaining ISO 9002 certification for CN's Revenue Management group. The certification means the group is now adhering to world business standards, following established procedures and proudly flying the ISO 9002 flag – an indication to customers of consistent quality processes. "This has made us more aware of what we do. It's added discipline to our processes and it means we have to do what we say we'll do," explains Wayne.

Category 9: Environmental impact

Gordon Roy

Under Gordon's leadership, the Great Lakes District went from an environmental compliance score of 53% to 90% in one year. The "Green Teams" he set up identified and acted on environmental issues at their various locations, simplifying processes, undertaking massive cleanups and getting back to the basics of environmentally friendly practices. "We raised the bar and we worked as a team to get it done," says Gordon.

Contents

Canadian National Railway Company

Notes to Consolidated Financial Statements

Financial highlights*

1999 was another year of solid financial performance by CN. CN's strong commitment to customer service, improvement of asset utilization and continued emphasis on cost controls all contributed to the following:

- **Revenues rose 2% to $5,236 million**
- **Operating income increased 15% to a record $1,467 million**
- **Operating ratio was an industry leading 72%, an improvement of 3.1 points**
- **Diluted earnings per share increased to $3.71, a 20% betterment**
- **Free cash flow generated – $276 million, after dividends**

**Excludes 1999 and 1998 cumulative effect of changes in accounting policy and the 1998 special charge. Also, 1999 financial performance is measured against 1998 pro forma corresponding results, which assumes that the acquisition and control of Illinois Central Corporation occurred on January 1, 1998.*

Strategic initiatives

In 1999, CN continued with its strategic initiatives to position itself for the new millennium:

- **On December 20, CN and Burlington Northern Santa Fe Corporation announced their intention to combine their railroads. This combination is subject to regulatory approvals in both Canada and the United States. The end-to-end combination would create North America's largest railroad, with approximately 50,000 route miles, 67,000 employees, and combined revenues of approximately U.S.$12.5 billion.**
- **CN obtained written approval from the U.S. Surface Transportation Board to merge CN and Illinois Central Corporation (IC) on May 25, 1999. The smooth operational integration of IC commenced on July 1. A new corporate structure was implemented to create five new geographic divisions focusing on operations and sales, while capturing merger efficiencies by consolidating general and administrative functions and marketing business units.**
- **CN has significantly reduced transit times and improved on-time delivery of carload freight since implementing a service plan a year ago that transformed CN into a scheduled railroad. CN's schedule of train services has:**
  1) **Reduced the time freight cars spend in key terminals by 18% to 21 hours;**
  2) **Increased locomotive utilization by 33% (as measured by gross ton miles per available horsepower); and**
  3) **Increased car velocity by 19% (as measured by car miles per day).**

  These productivity gains were achieved while improving service to an 81% on-time performance for carload traffic at a dock-to-dock level of measure.
- **In its drive to become more competitive in short-haul freight transportation markets, CN introduced the dual-mode RoadRailer™ equipment to service the Montreal – Toronto corridor. RoadRailer™ is a transportation technology that delivers the flexibility of highway with the efficiency of rail.**
- **As part of its Network Rationalization Program, CN transferred to short-line operators or discontinued 353 miles in 1999. This brings CN's total rationalization to 5,800 miles to date, largely completing its announced 6,000-mile IPO program one year ahead of schedule.**
- **In December, CN and Canadian Pacific Railway Company (CP) signed a long-term operating agreement for "directional running" of all CN and CP trains over the 155-mile Fraser Canyon in British Columbia. This will improve transit times and service reliability, as well as increase capacity in this mountainous corridor.**
- **Two joint venture agreements were signed with Worldwide Fiber Inc. by CN and IC. The agreements grant the joint ventures preferred access to CN and IC rights-of-way to develop fiber optic transmission systems and resell strand and conduit capacity to telecommunication companies and Internet providers.**

Selected Railroad Statistics

Year ended December 31,	1999	1998 Pro forma[1]	1998	1997
Rail operations				
Freight revenues *($ millions)*	5,032	4,952	3,943	4,160
Gross ton miles *(billions)*	274.5	263.5	216.5	228.4
Revenue ton miles (RTM) *(millions)*	143,613	138,669	112,929	119,534
Route miles *(includes Canada and the U.S.)*	15,777	16,911	13,741	15,292
Operating expenses (excluding the 1998 special charge) per RTM *(cents)*	2.62	2.78	2.72	2.81
Freight revenue per RTM *(cents)*	3.50	3.57	3.49	3.48
Carloads *(thousands)*	3,645	3,483	2,456	2,547
Freight revenue per carload *($)*	1,381	1,422	1,605	1,633
Diesel fuel consumed *(Canadian gallons in millions)*	275	284	234	272
Average fuel price *($/Canadian gallon)*	1.05	1.04	1.08	1.23
Revenue ton miles per Canadian gallon of fuel consumed	522	488	483	439
Locomotive bad order ratio *(%)*	6.8	7.8[2]	7.8	10.1
Freight car bad order ratio *(%)*	5.4[2]	3.4[2]	3.4	3.7
Productivity				
Operating ratio (excluding the 1998 special charge) *(%)*	72.0	75.1	75.3	78.4
Freight revenue per route mile *($ thousands)*	319	293	287	272
Revenue ton miles per route mile *(thousands)*	9,103	8,200	8,218	7,817
Freight revenue per average number of employees *($ thousands)*	214	198	183	182
Revenue ton miles per average number of employees *(thousands)*	6,113	5,548	5,249	5,243
Employees				
Number at end of year	21,563	22,653	19,198	21,081
Average number during year	23,493	24,993	21,514	22,800
Labor and fringe benefits per RTM *(cents)*	1.05	1.14	1.14	1.11
Injury frequency rate per 200,000 person hours	7.3	6.8	7.5	7.8
Accident rate per million train miles	2.2	2.3	1.4	2.2
Financial				
Debt to total capitalization ratio *(% at end of year)*	42.7	45.0[2]	45.0	29.4
Return on assets *(% at end of year)*[3]	5.7	5.9[2]	5.9	6.7

(1) Pro forma refers to the consolidation of the financial and statistical data of Illinois Central Corporation (IC) assuming the acquisition and control of IC occurred on January 1, 1998.
(2) Excludes Illinois Central Corporation.
(3) Income from continuing operations before cumulative effect of changes in accounting policy, adjusted to exclude the 1998 special charge.

Certain of the 1998 and 1997 comparative figures have been reclassified in order to be consistent with 1999 presentation.

Management's discussion and analysis relates to the financial condition and results of operations of Canadian National Railway Company (CN) together with its wholly owned subsidiaries, including Grand Trunk Corporation and Illinois Central Corporation (IC). As used herein, the word "Company" means, as the context requires, CN and its subsidiaries. CN's common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of United States generally accepted accounting principles (U.S. GAAP).

Financial results

1999 compared to 1998

Where applicable and for comparative purposes only, management's discussion and analysis of the financial results when comparing 1999 versus 1998 has also been provided using 1998 pro forma figures as presented in Note 4 to the 1999 consolidated financial statements. As used herein, 1998 pro forma refers to the consolidation of the results of operations of IC, assuming the acquisition and control of IC occurred on January 1, 1998.

The Company recorded consolidated net income of $751 million ($3.81 per share) for the year ended December 31, 1999 compared to $266 million ($1.45 per share), or $295 million ($1.54 per share) on a pro forma basis, for the year ended December 31, 1998. Diluted earnings per share were $3.74 for the current year compared to $1.44 ($1.53 pro forma) in 1998.

The years ended December 31, 1999 and 1998 include items impacting the comparability of the results of operations. In 1999, the Company recorded a $5 million after-tax ($0.03 per share) cumulative effect of changes in accounting policy for expenditures related to the improvement of bridges and other structures and freight cars, and for costs associated with employee injuries. In 1998, the Company recorded a special charge of $590 million, $345 million after tax ($1.89 per share, $1.80 per share pro forma or $1.87 per diluted share, $1.78 per diluted share pro forma), for workforce reductions and an after-tax cumulative effect of change in accounting policy for pension costs of $42 million ($0.23 per share, $0.22 per share pro forma).

Excluding the effects of the items discussed above of $5 million ($0.03 per share) for 1999 and $303 million ($1.66 per share, $1.58 per share pro forma or $1.64 per diluted share, $1.56 per diluted share pro forma) for 1998, consolidated net income was $746 million ($3.78 per share or $3.71 per diluted share) for the year ended December 31, 1999 compared to $569 million ($3.11 per share or $3.08 per diluted share), or $598 million ($3.12 per share or $3.09 per diluted share) on a pro forma basis, for the year ended December 31, 1998.

Operating income was $1,467 million for 1999 compared to $418 million ($691 million pro forma) in 1998. When compared to 1998 operating income of $1,008 million ($1,281 million pro forma), excluding the special charge, 1999 operating income increased by $459 million, or 46% ($186 million, or 15% pro forma). The operating ratio in 1999 was 72.0% compared to 75.3% (75.1% pro forma) in 1998, excluding the special charge.

Revenues

Revenues for the year ended December 31, 1999 totaled $5,236 million as compared to $4,078 million in 1998, an increase of $1,158 million, or 28%, mainly attributable to the consolidation of IC's operating results in 1999.

When compared to 1998 pro forma revenues of $5,137 million, annual revenues increased by $99 million, or 2%. The increase was mainly due to higher revenues in automotive, petroleum and chemicals, and intermodal, partially offset by coal. Revenue ton miles increased by 4% while freight revenue per revenue ton mile decreased by 2%.

The 1998 data presented in the following table is on a pro forma basis. For comparative purposes only, variances relating to the individual business units are discussed and analyzed solely using the 1998 pro forma figures.

Year ended December 31,	1999	1998	1999	1998	1999	1998
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	$ 878	$ 851	24,194	22,100	3.63	3.85
Metals and minerals	398	408	9,271	9,970	4.29	4.09
Forest products	995	979	27,500	26,220	3.62	3.73
Coal	402	474	18,645	19,907	2.16	2.38
Grain and fertilizers	1,066	1,068	38,681	37,904	2.76	2.82
Intermodal	810	790	22,589	20,353	3.59	3.88
Automotive	483	382	2,733	2,215	17.67	17.25
Other items	204	185	–	–	–	–
Total	$5,236	$5,137	143,613	138,669	3.50	3.57

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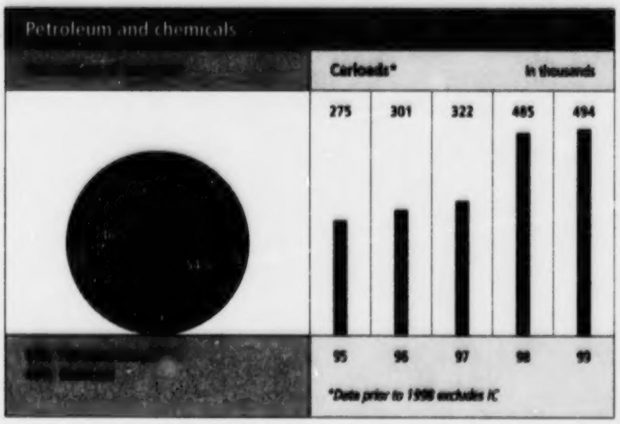
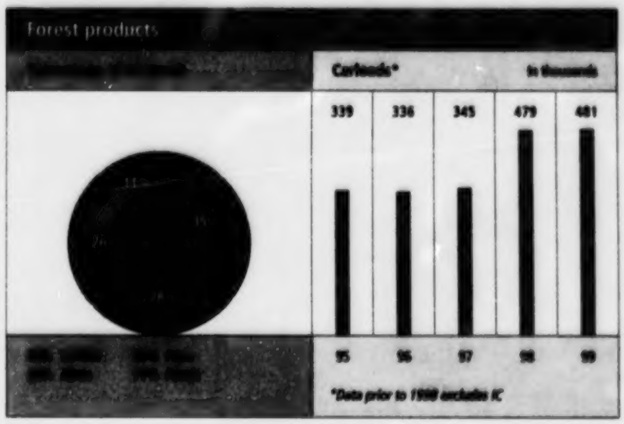
Petroleum and chemicals – Revenues and volumes increased by 3% and 9%, respectively

Revenues for the year ended December 31, 1999 increased by $27 million over 1998. Growth stemmed from favorable market conditions for sulfur, plastics and plastics derivatives, particularly in Canada, and strong demand for liquefied petroleum gas. The improvement was partially offset by increased short-line payments related to the Company's network rationalization program. An increased average length of haul contributed to a 6% decrease in revenue per revenue ton mile.



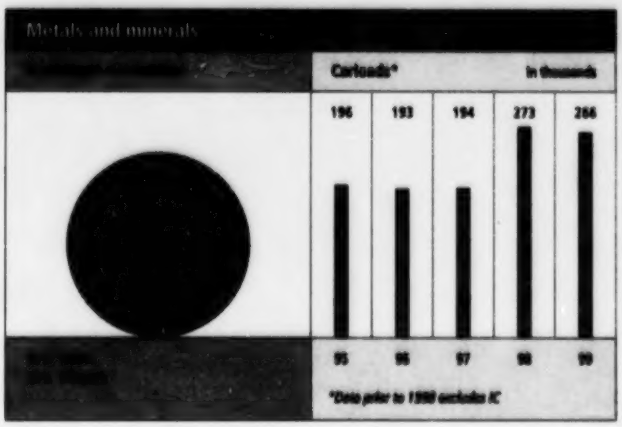
Forest products – Revenues and volumes increased by 2% and 5%, respectively

Revenues for 1999 increased by $16 million over 1998. The positive 1999 performance reflected growth in lumber and panels traffic in line with Canadian and U.S. construction markets, gradual recovery in international woodpulp markets, as well as a strike at a major paper producing customer in 1998. Increased short-line payments related to the Company's network rationalization program partially offset the improvements in the current year. A shift to longer haul traffic contributed to the decrease in revenue per revenue ton mile of 3%.



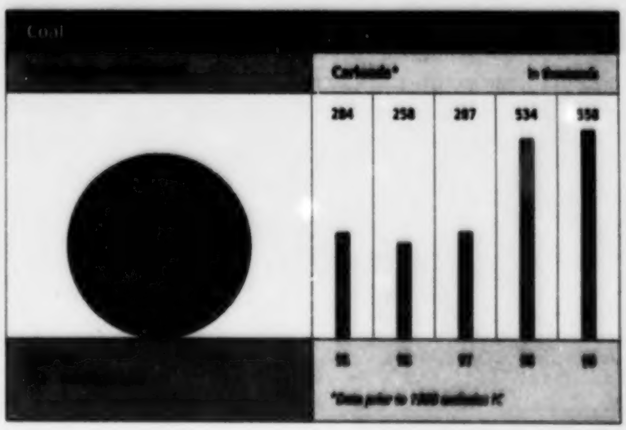
Metals and minerals – Revenues and volumes decreased by 2% and 7%, respectively

Revenues for the year ended December 31, 1999 decreased by $10 million when compared to 1998. The decrease was driven by weak steel shipments resulting from strong offshore steel imports in the U.S. and Canada in the earlier part of the year. This was partially offset by the growth in construction materials traffic, in line with stronger construction activity, and stronger non-ferrous metals traffic in Canada. An increase in revenue per revenue ton mile of 5% is related to a decrease in the average length of haul.



Coal – Revenues and volumes decreased by 15% and 6%, respectively

Revenues for the year ended December 31, 1999 decreased by $72 million from 1998. The decrease in 1999 was due to weak Canadian coal exports as a result of reduced Asian steel production and contract coal price reductions. The revenue per revenue ton mile decrease of 9% was mainly attributable to reduced freight rates tied to coal prices.



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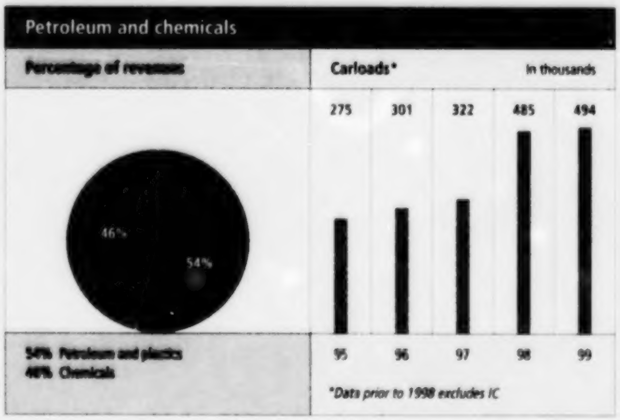

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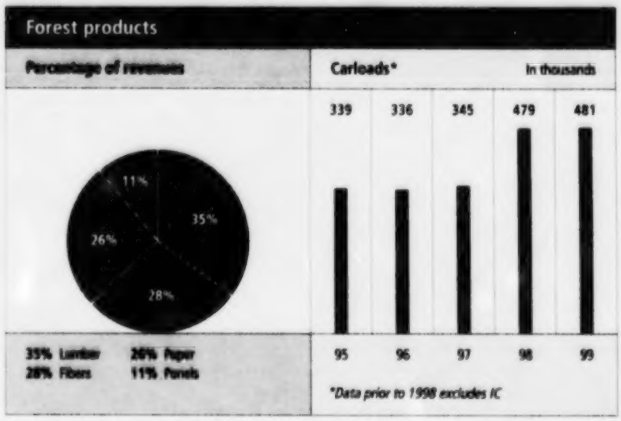

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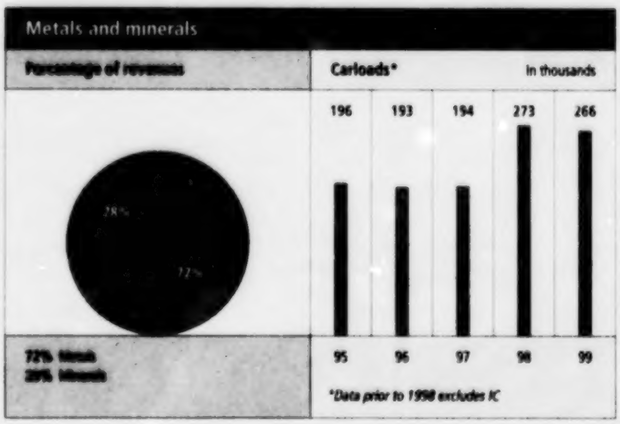

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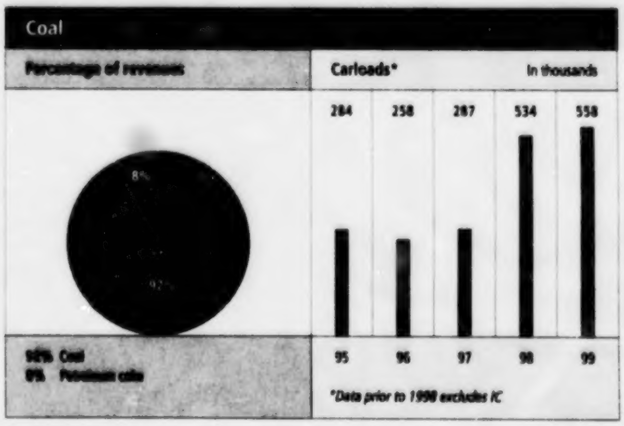
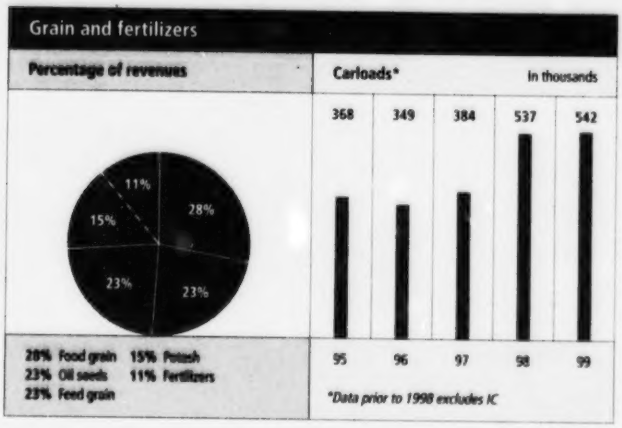


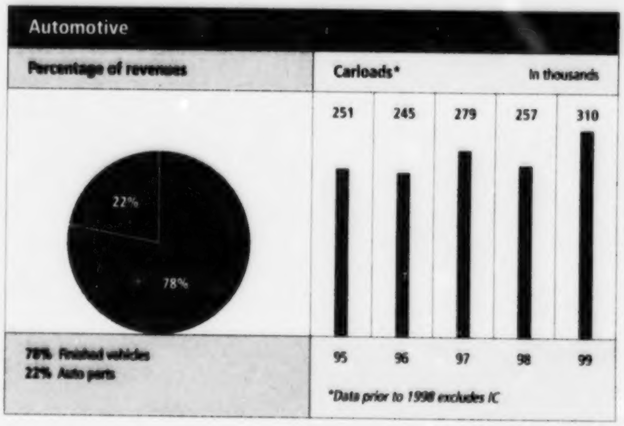
Grain and fertilizers – Revenues were flat and volumes increased by 2%

Revenues remained essentially flat during 1999. The $2 million decrease reflects the reduction in canola oil and seed shipments consistent with market conditions and lower Canadian wheat exports in the earlier part of the year, as well as increased short-line payments related to the Company's network rationalization program. These were offset by the increase in U.S. exports of corn through the Gulf of Mexico and of potash shipments tied to significant Canadian potash export growth in the fourth quarter of 1999. The decline in revenue per revenue ton mile of 2% mainly results from the decrease in regulated Canadian grain rates of 1.2% in August 1998.



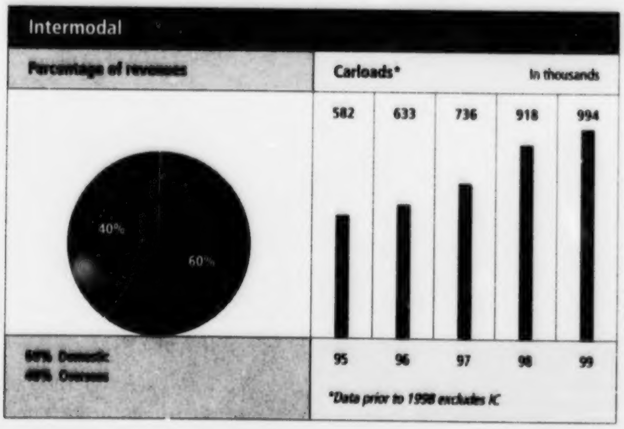
Automotive – Revenues and volumes increased by 26% and 23%, respectively

Revenues for the year ended December 31, 1999 increased $101 million over 1998. The increase is consistent with strong vehicle sales in both Canada and the United States and double-digit growth in Canadian motor vehicle exports, and reflects the impact of a strike at a major automotive manufacturer in 1998. The revenue per revenue ton mile increase of 2% is mainly due to a shift in traffic patterns and to the weakness of the Canadian dollar in the earlier part of 1999.



Intermodal – Revenues and volumes increased by 3% and 11%, respectively

Revenues in 1999 increased by $20 million when compared to the year ended December 31, 1998. The increase was mainly due to strength in the overseas segment in line with growing container trade and new traffic obtained through the Port of Vancouver. The domestic segment also contributed to this growth driven by the impact of the strong U.S. economy, partially offset by weakness in the Canadian domestic market to the west. Strong competition and a shift in traffic patterns for both the overseas and domestic segments resulted in a revenue per revenue ton mile decrease of 7%.



Other items – Revenues increased by 10%

Revenues for the year ended December 31, 1999 increased by $19 million over 1998. The majority of the increase was attributable to the final branch line subsidy payment of $21 million related to the 1996 claim for unprofitable lines.

Grain and fertilizers – Revenues were flat and volumes increased by 2%

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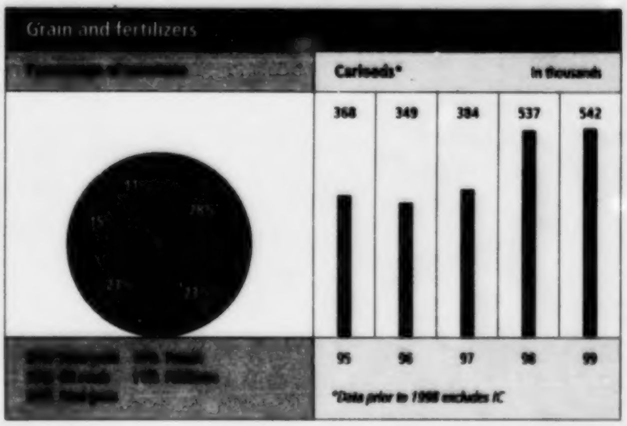

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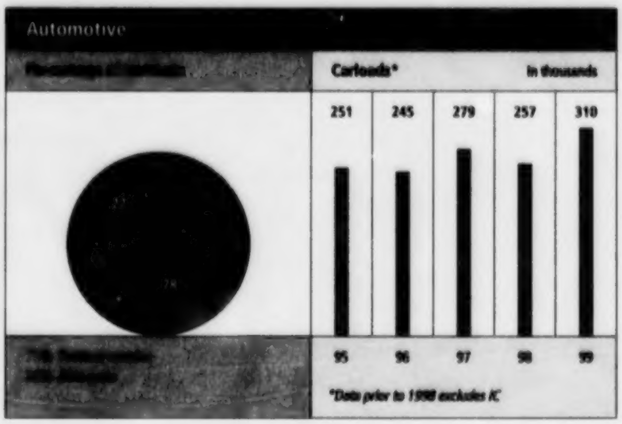

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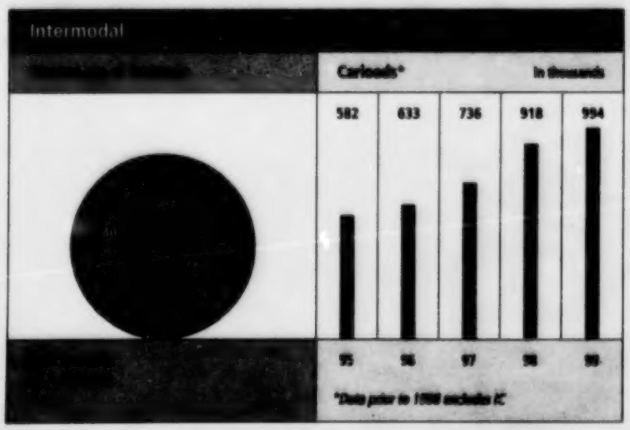

Other items – Revenues increased by 10%

Revenues for the year ended December 31, 1999 increased by $19 million over 1998. The majority of the increase was attributable to the final branch line subsidy payment of $21 million related to the 1996 claim for unprofitable lines.

Operating expenses

Total operating expenses amounted to $3,769 million in 1999 compared to $3,660 million in 1998. When compared to 1998 operating expenses of $3,070 million, excluding the special charge for workforce reductions, 1999 operating expenses increased by $699 million, or 23%, predominantly due to the consolidation of IC's operating expenses in 1999.

Pro forma operating expenses for the year ended December 31, 1998 were $4,446 million. When compared to 1998 pro forma operating expenses of $3,856 million, excluding the special charge, 1999 operating expenses decreased by $87 million, or 2%. The decrease was mainly due to lower expenses in labor and fringe benefits, equipment rents and operating taxes, partially offset by increased purchased services costs.

The 1998 operating expense data presented in the following table is on a pro forma basis. For comparative purposes only, variances relating to the individual operating expense categories are discussed and analyzed solely using the 1998 pro forma figures.

Dollars in millions — *Year ended December 31,*	1999		1998	
	Amount	**% of revenue**	Amount	% of revenue
Labor and fringe benefits	**$1,509**	**28.8%**	$1,586	30.9%
Purchased services	**569**	**10.9%**	515	10.0%
Depreciation and amortization	**490**	**9.3%**	497	9.7%
Equipment rents	**328**	**6.3%**	354	6.9%
Fuel	**308**	**5.9%**	312	6.1%
Material	**204**	**3.9%**	219	4.3%
Operating taxes	**172**	**3.3%**	199	3.9%
Casualty and other	**189**	**3.6%**	174	3.3%
	3,769	**72.0%**	3,856	75.1%
Special charge	**–**		590	
Total operating expenses	**$3,769**		$4,446	

Labor and fringe benefits: Labor and fringe benefit expenses in 1999 decreased by $77 million, or 5%, when compared to 1998. The majority of the decrease was attributable to the Company's reduced workforce and higher workers' compensation costs in 1998, partially offset by increased 1999 salary and benefit costs.

Purchased services: Costs of purchased services increased by $54 million, or 10%, for 1999 when compared to 1998. The increase was mainly due to higher consulting and integration costs, outsourcing fees, as well as $20 million incurred in the fourth quarter of 1999 for costs related to the proposed combination of CN and Burlington Northern Santa Fe Corporation (BNSF).

Depreciation and amortization: Depreciation and amortization expense in 1999 decreased by $7 million, or 1%, when compared to 1998. The impact of capital additions was more than offset by the effects of revised depreciation rates following the completion of a study in early 1999 of the Company's depreciation rates.

Equipment rents: These expenses decreased by $26 million, or 7%, in the current year due to a higher level of car hire income in 1999 versus 1998 and a lower level of short-term leases, mainly as a result of improved asset utilization from the new service plan.

Fuel: An improvement in fuel efficiency as well as a lower average fuel price in 1999 (including the effects of the Company's fuel hedging program) produced a decrease in fuel expense of $4 million, or 1%, in 1999.

Material: Material costs decreased by $15 million, or 7%, in 1999 from the 1998 level. The decrease in 1999 was mainly as a result of lower running repairs due to a fewer number of locomotives and freight cars in service.

Operating taxes: Operating taxes decreased by $27 million, or 14%, in 1999, mainly as a result of a decrease in the Alberta statutory diesel fuel tax rate, a refund of prior years' taxes and lower municipal property tax rates in certain jurisdictions.

Casualty and other: These expenses increased by $15 million, or 9%, during 1999. The increase was largely driven by the increase in the provision for environmental costs in 1999 as well as the one-time recovery of costs from a third party in 1998. The increase was partially offset by lower costs related to legal claims in 1999.

Other

Interest expense: Interest expense for the year ended December 31, 1999 was $314 million compared to $242 million in 1998. The 1999 increase of $72 million was largely attributable to the consolidation of IC in 1999. Compared to 1998 on a pro forma basis, interest expense decreased by $17 million, mainly as a result of debt repayments from the proceeds of the common shares and convertible preferred securities issuances at the end of June 1999.

Equity in earnings of Illinois Central Corporation: The Company consolidated the results of IC in 1999. In 1998, the Company applied the equity method of accounting for its investment in IC. Equity in the earnings of IC for the year ended December 31, 1998 was $105 million. Pro forma figures have been presented in Note 4 to the 1999 consolidated financial statements as if the Company had consolidated the results of IC on January 1, 1998.

Other income: In 1999, the Company recorded other income of $55 million compared to other income of $17 million ($23 million pro forma) in 1998. The increase in 1999 was mainly due to first quarter right-of-way revenues of $20 million and the comparative period's $26 million of unrealized foreign exchange loss on the translation of the Company's U.S. dollar denominated long-term debt.

Income tax expense: The Company recorded income tax expense for the current year of $462 million compared to income tax expense of $74 million ($130 million pro forma) in 1998. The effective income tax rate was 38.2% for the current year and 40.7% (38.5% pro forma) in 1998, excluding the equity in earnings of IC as well as the effect of the special charge in 1998.

1998 compared to 1997

Management's discussion and analysis of the financial results of 1998 versus 1997 has been provided using 1998 and 1997 actual and as-reported figures, and not using pro forma financial information, as if the Company had acquired control of IC on January 1, 1997.

The Company recorded consolidated net income for the year ended December 31, 1998 of $266 million ($1.45 per share) compared to $1,040 million ($6.11 per share) in 1997. Diluted earnings per share were $1.44 for 1998 compared to $6.03 in 1997.

The years ended December 31, 1998 and 1997 include items impacting the comparability of the results of operations. In 1998, the Company recorded a special charge of $590 million, $345 million after tax ($1.89 per share or $1.87 per diluted share) for workforce reductions and an after-tax cumulative effect of change in accounting policy for pension costs of $42 million ($0.23 per share). In 1997, the Company recorded a $589 million after-tax ($3.47 per share or $3.42 per diluted share) cumulative effect of change in accounting policy for track replacement costs and had a discontinued operations loss of $18 million, net of applicable income taxes ($0.11 per share).

Excluding the effects of the items discussed above of $303 million ($1.66 per share or $1.64 per diluted share) for 1998 and $571 million ($3.36 per share or $3.31 per diluted share) for 1997, consolidated net income was $569 million ($3.11 per share or $3.08 per diluted share) for the year ended December 31, 1998 compared to $469 million ($2.75 per share or $2.72 per diluted share) for the year ended December 31, 1997.

Operating income was $418 million for 1998 compared to $927 million in 1997. Excluding the special charge, operating income was $1,008 million for the year ended December 31, 1998, an increase of $81 million, or 9%, over 1997. The operating ratio, excluding the special charge, improved from 78.4% in 1997 to 75.3% in 1998.

The 1998 consolidated financial statements reflect, effective January 1, 1998, the Company's change in its accounting policy relating to accounting for pension and post-retirement benefit costs in accordance with the provisions of Statement of Financial Accounting Standards (FAS) 87, "Employers' Accounting for Pensions," FAS 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions," and the adoption of Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." See Note 2 to the annual consolidated financial statements for the effects of accounting policy changes.

Revenues

Revenues for the year ended December 31, 1998 totaled $4,078 million as compared to $4,283 million in 1997, a decrease of $205 million, or 5%. The decline was mainly attributable to lower revenues in grain and fertilizers, and coal. Revenue ton miles decreased by 6% while freight revenue per revenue ton mile remained relatively flat when comparing 1998 over 1997.

Year ended December 31,	1998	1997	1998	1997	1998	1997
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	$ 578	$ 560	17,814	18,120	3.24	3.09
Metals and minerals	319	310	7,905	7,815	4.04	3.97
Forest products	817	809	22,992	22,810	3.55	3.55
Coal	342	401	14,538	14,845	2.35	2.70
Grain and fertilizers	798	941	28,426	34,192	2.81	2.75
Intermodal	712	716	19,076	18,657	3.73	3.84
Automotive	377	423	2,178	3,095	17.31	13.67
Other items	135	123	–	–	–	–
Total	$4,078	$4,283	112,929	119,534	3.49	3.48

Petroleum and chemicals – Revenues increased by 3% and volumes decreased by 2%

Revenues for the year ended December 31, 1998 increased by $18 million over 1997. The 1998 growth was largely attributable to strength in petroleum products traffic, particularly plastics and fuel oils. These gains were partially offset by softness in the chemicals markets, continued excess supply in the international sulfur market, and the impact of the Company's network rationalization program. Revenue per revenue ton mile increased by 5% due to a shift in traffic patterns, combined with a weaker Canadian dollar as compared to 1997.

Metals and minerals – Revenues increased by 3% and volumes increased by 1%

Revenues for the year ended December 31, 1998 increased by $9 million when compared to 1997. The 1998 growth stemmed from increased metals shipments generated by pipeline projects in western Canada, as well as an improvement in aluminum traffic as a result of strong market conditions in the United States. Revenue per revenue ton mile increased 2% this year due to a decrease in length of haul.

Forest products – Revenues increased by 1% and volumes increased by 1%

Revenues for 1998 increased by $8 million over 1997. The 1998 growth was driven by increased lumber and panels traffic due to continued strength in U.S. housing activity and market share gains. Partially offsetting these increases were a six-month strike at a major North American paper producer and the impact of the Company's network rationalization program. Revenue per revenue ton mile remained flat over 1997.

Coal – Revenues decreased by 15% and volumes decreased by 2%

Revenues for the year ended December 31, 1998 decreased by $59 million from 1997. The 1998 decrease was mainly attributable to lower coal export traffic as a result of weak international coal markets, particularly from reductions in Asian steel production. The revenue per revenue ton mile decrease of 13% was mainly attributable to reduced freight rates tied to coal prices.

Grain and fertilizers – Revenues decreased by 15% and volumes decreased by 17%

Revenues for the year ended December 31, 1998 decreased by $143 million from the 1997 level. The 1998 decline reflected a very strong comparative year in 1997 due to the 1996/1997 bumper crop and softness in export markets for wheat and feed grains. Canola oil and seed shipments improved throughout the year, consistent with overall market strength. The revenue per revenue ton mile improvement of 2% was mainly due to the regulated rate increase of 2% on export grain effective August 1997, as well as a decline in longer haul export traffic.

Intermodal – Revenues decreased by 1% and volumes increased by 2%

Revenues in 1998 decreased by $4 million when compared to the year ended December 31, 1997. A decline in 1998 in the domestic segment was due to weaker shipments to western Canada, as well as the adverse effect of customers' concerns regarding a potential strike at the Company during labor negotiations, which were concluded in the latter part of the third quarter. Partially offsetting domestic weakness was strength in overseas traffic, particularly imports through the west coast. The decrease in revenue per revenue ton mile of 3% was largely due to a shift to longer haul traffic, particularly in the overseas market.

Automotive – Revenues decreased by 11% and volumes decreased by 30%

Revenues for the year ended December 31, 1998 decreased by $46 million from 1997. The 1998 decline was due primarily to the impact of a June and July strike at a major U.S. automobile manufacturer and reduced production at a major Company-served auto plant due to retooling. The increase in revenue per revenue ton mile of 27% was driven by changes in customer distribution patterns, a corporate decision to shed unprofitable business, and weakness in the Canadian dollar.

Operating expenses

Total operating expenses amounted to $3,660 million in 1998 compared to $3,356 million in 1997. Excluding the special charge for workforce reductions, operating expenses were $3,070 million for the year ended December 31, 1998, a decrease of $286 million, or 9%, from 1997. The decrease was mainly due to lower expenses in labor and fringe benefits, equipment rents, fuel and material.

Dollars in millions — *Year ended December 31,*	1998 Amount	1998 % of revenue	1997 Amount	1997 % of revenue
Labor and fringe benefits	$1,293	31.7%	$1,328	31.0%
Purchased services	450	11.0%	462	10.8%
Depreciation and amortization	316	7.8%	315	7.4%
Equipment rents	291	7.1%	334	7.8%
Fuel	263	6.5%	349	8.1%
Material	176	4.3%	256	6.0%
Operating taxes	170	4.2%	185	4.3%
Casualty and other	111	2.7%	127	3.0%
	3,070	75.3%	3,356	78.4%
Special charge	590		–	
Total operating expenses	$3,660		$3,356	

Labor and fringe benefits: Labor and fringe benefits expenses in 1998 decreased by $35 million, or 3%, when compared to 1997. The decrease was largely attributable to lower volumes, the impact of the Company's downsizing efforts, and an increase in capitalization due to a higher proportion of the workforce assigned to capital projects. Partially offsetting the decrease in labor and fringe benefits expenses were wage increases and higher pension expense, mainly attributable to benefits related to the new collective agreements, as well as an adjustment to workers' compensation expense.

Purchased services: Costs of purchased services decreased by $12 million, or 3%, for 1998 when compared to 1997. The decrease was mainly due to lower professional fees, cost reductions on a locomotive maintenance contract, and lower vehicle leasing costs and deadheading costs. This was partially offset by decreased cost recoveries related to joint facility projects and increased costs related to detouring traffic as a result of the 1998 ice storm in eastern Canada.

Depreciation and amortization: Depreciation and amortization expense in 1998 remained relatively flat in comparison to 1997 as the increased depreciation expense related to the 1998 capital additions, as well as the acquisition of new locomotives in the latter part of 1997, was offset by the effects of lower depreciation rates for certain track assets commencing in 1998.

Equipment rents: These expenses decreased by $43 million, or 13%, in 1998, largely as a result of an increase in locomotive short-term lease income and decreased car hire expenses on covered hopper grain cars, decreased volumes and improved asset utilization.

Fuel: The decline in the average price of fuel of 12% (including the effects of the Company's fuel hedging program), as well as reduced volume levels and a 10% improvement in fuel efficiency, largely produced a decrease in fuel expense for 1998 of $86 million, or 25%, from 1997.

Material: Material costs decreased by $80 million, or 31%, in 1998 from the 1997 level. The decrease in 1998 was mainly as a result of the Company's network rationalization initiatives, the capitalization of certain costs related to locomotive refurbishments, and the temporary closure of certain repair facilities.

Operating taxes: Operating taxes decreased by $15 million, or 8%, in 1998, mainly as a result of a decrease in diesel fuel taxes and municipal property taxes.

Casualty and other: These expenses decreased by $16 million, or 13%, during 1998. The decrease was mainly as a result of an improved safety record, lower costs of train accidents and legal claims related to injuries to persons, the capitalization of certain costs related to information technology system development projects, decreased utility costs, higher recoveries from third parties, and the write-off of certain accounts receivable in 1997.

Special charge: The Company recorded a $590 million pre-tax charge ($345 million after tax) to operations in the third quarter of 1998 for workforce reduction plans aimed at reducing future operating costs and increasing productivity. The charge includes severance and other payments to be made for approximately 3,000 reductions, 1,400 of which occurred in 1998, 1,300 in 1999, with the remainder to be completed in 2000. Labor productivity and operating efficiency initiatives span the entire organization, with reductions in the administration, transportation, engineering and equipment functions.

Other

Interest expense: Interest expense for the year ended December 31, 1998 was $242 million compared to $117 million in 1997, an increase of $125 million. The increase reflects the impact of the financing related to the acquisition of IC, as well as the financing related to the locomotive upgrade program and other capital leases, which was partially offset by repurchases of some of the Company's outstanding long-term debt in the latter part of 1997.

Equity in earnings of Illinois Central Corporation: The Company applied the equity method of accounting for its investment in IC. Accordingly, equity in the earnings of IC of $105 million was recorded in 1998.

Other income: Other income for the year ended December 31, 1998 was $17 million compared to $24 million in 1997, a decrease of $7 million. The decrease was mainly due to the second-quarter 1997 gain on sale of the Company's interest in a joint venture of $21 million, partially offset by a decreased foreign exchange loss in 1998 versus 1997. The Company recorded a foreign exchange loss of $26 million for 1998 compared to a loss of $38 million in 1997. The decreased foreign exchange loss resulted largely from both the effect of the changes in the value of the Canadian dollar on the Company's U.S. dollar denominated long-term debt and operations, and the Company's designation of a hedge of the net investment in IC with the U.S. dollar denominated long-term debt.

Effective April 1, 1998, the Company designated U.S.$1.8 billion of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in IC. Effective June 4, 1998, and corresponding with the completion of the second step of the IC acquisition, the Company increased that designated amount to include all of its U.S. dollar denominated debt. The result is that unrealized foreign exchange gains and losses, from the date of designation, on the translation of the Company's U.S. dollar denominated debt are included in Accumulated other comprehensive income, along with the unrealized foreign gains and losses on the translation of the Company's net investment in IC, which forms part of Shareholders' equity.

Income tax expense from continuing operations: Income tax expense for the year ended December 31, 1998 was $74 million compared to $365 million for the year ended December 31, 1997. The effective income tax rate for 1998 was affected by the Company's equity in earnings of IC. Excluding the equity in earnings of IC and the special charge, the effective income tax rate was 40.7% in 1998. The effective income tax rate in 1997 was 43.8%.

Liquidity and capital resources

Operating activities: Cash provided from operations was $1,278 million for the year ended December 31, 1999 compared to $1,237 million for 1998. Cash from operations includes the effect of the reduction of the sale of accounts receivable of $14 million in 1999 and includes the proceeds from the sale of accounts receivable of $219 million in 1998. Net income, excluding non-cash items, generated cash of $1,657 million in 1999, up from $1,084 million in 1998. A significant portion of the cash generated in 1999 and 1998 was consumed by payments with respect to workforce reductions of $219 million in 1999 and $187 million in 1998. As a result of the 1999 payments, the workforce reduction accruals have been reduced to $699 million as at December 31, 1999. Cash payments with respect to workforce reductions are expected to be approximately $182 million in 2000.

Investing activities: Cash used in investing activities in 1999 amounted to $898 million compared to $691 million in 1998, excluding the investment in IC. Capital expenditures amounted to $936 million for the year ended December 31, 1999, an increase of $192 million over 1998. Capital expenditures included roadway renewal, rolling stock, and other capacity and productivity improvements.

The Company anticipates that capital expenditures for 2000 will be approximately $950 million. This will include funds required for ongoing renewal of the basic plant and other acquisitions and investments required to improve the Company's operating efficiency and customer service.

As at December 31, 1999, the Company had commitments to acquire locomotives and freight cars at an aggregate cost of $111 million, rail at a cost of $38 million, railroad ties at a cost of $39 million, automotive equipment at a cost of $18 million, and intermodal equipment at a cost of $1 million.

Dividends: During 1999, the Company paid dividends totaling $118 million to its shareholders at the rate of $0.30 per share per quarter for the first three quarters and $0.15 per share in the fourth quarter, following the two-for-one stock split.

Financing activities: On June 23, 1999, the Company issued 4.6 million common shares (9.2 million common shares after giving effect to the two-for-one stock split) and 4.6 million convertible preferred securities. The common shares were issued at a pre-split $91.45 per share (U.S.$62.56 per share), or $45.73 per share (U.S.$31.28 per share) after giving effect to the two-for-one stock split, and the convertible preferred securities were issued at U.S.$50 per security. Net of underwriting fees and other issue costs, the Company received $726 million (U.S.$497 million). During 1999, the Company recorded $235 million in capital lease obligations ($156 million in 1998) for capital leases for new equipment and the exercise of purchase options on existing equipment.

The proceeds from the sale of common shares and convertible preferred securities were used to repay $185 million (U.S.$125 million) of commercial paper on June 23, 1999 and $456 million (U.S.$310 million) of the Company's revolving credit facility on June 25, 1999. During 1999, the Company repaid $497 million (U.S.$341 million) of commercial paper and $321 million (U.S.$220 million) of the revolving credit facility.

Subsequent event – Share repurchase program

On January 25, 2000, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 13 million common shares of the Company's common stock pursuant to a normal course issuer bid, at prevailing market prices. Total shares repurchased through March 1, 2000 were 2.8 million shares at an average cost of $35.56 per share.

Proposed combination of Canadian National and Burlington Northern Santa Fe

On December 18, 1999, CN and BNSF entered into a Combination Agreement (the Combination) providing for the combination of the two companies. To comply with Canadian legal requirements that, among other things, prohibit any person and that person's associates from holding more than 15% of the voting rights in CN, while ensuring that the Combination will be tax efficient for each company's shareholders, the combined enterprise will consist of two public companies: North American Railways, Inc. (NAR), a newly incorporated company, and CN. Upon completion of the Combination, NAR will be the parent company of BNSF and will own all of the limited voting equity shares of CN.

Under the Combination, BNSF shareholders will receive one share of NAR common stock and one CN voting share for each BNSF share, and CN shareholders will receive, for each CN common share, 1.05 CN voting shares and either 1.05 shares of NAR common stock or 1.05 CN exchangeable shares. The CN exchangeable shares will be exchangeable at any time on a one-for-one basis for shares of NAR common stock. CN shareholders who elect to receive the CN exchangeable shares will also receive the right to vote on matters submitted to NAR shareholders in proportion to their economic interest in the combined companies. All shareholders will have voting interests in both NAR and CN, and economic interests in the combined companies. Dividends paid on the NAR common stock and the CN exchangeable shares will be equivalent.

Each share of NAR common stock will be "stapled" to a CN voting share and will trade as a single security. Similarly, each CN exchangeable share will be "stapled" to a CN voting share and will trade as a single security. In addition, CN will issue to NAR limited voting equity shares carrying 10.1% of the voting rights in CN and 100% of CN's equity. The result of these arrangements will be that, at all times, each company will have the same public shareholder base, with each public shareholder effectively having the same economic benefits and voting rights on a per security basis.

The Combination is subject to, among other things, approval by the shareholders of CN and BNSF, as well as approvals by Quebec Superior Court and the U.S. Surface Transportation Board (STB). CN and BNSF currently expect that all regulatory approvals can be obtained and the transaction completed by mid-2001. Shareholders are expected to vote on the proposed Combination during the second quarter of 2000.

In accordance with the terms of the Combination, BNSF has agreed to pay CN a cash termination fee equal to U.S.$450 million and CN has agreed to pay BNSF a cash termination fee equal to U.S.$200 million in the event that the Combination is terminated under the following circumstances: i) an alternative proposal is made by a third party with respect to either BNSF or CN and thereafter the BNSF or CN shareholders vote not to adopt the Combination; or ii) where either of the BNSF or CN board of directors withdraws, adversely modifies or changes its approval or recommendation of the Combination, the transactions that it contemplates or the arrangement resolution; or iii) where BNSF or CN breach certain of their obligations with respect to soliciting and responding to proposals for alternative transactions related to the other party. In addition, if conditions are imposed by the STB that would significantly and adversely affect the economic benefits of the Combination to BNSF, CN and their shareholders, taken as a whole, BNSF or CN may elect not to consummate the transaction and pay termination fees of U.S.$300 million and U.S.$150 million, respectively.

In connection with the Combination, BNSF and CN have granted reciprocal stock options to each other with respect to, in the case of CN, approximately 29 million CN common shares and, in the case of BNSF, approximately 65 million shares of BNSF common stock. The number of shares subject to the stock options is subject to adjustment in each case so that the number of shares subject to the option will always be equal to but not exceed 12.5% of the outstanding common shares of the option issuer after giving effect to the issuance of shares of common stock under the option. The exercise price of an option is, in each case, the average of the closing price of the option issuer's common stock on the New York Stock Exchange on the five trading days preceding the date of notice of exercise. CN's grant of a stock option to BNSF is subject to the approval of The Toronto Stock Exchange, and BNSF's grant of a stock option to CN is not effective until The Toronto Stock Exchange gives its approval to CN. Each party's option is exercisable under the same circumstances in which that party is entitled to receive a termination fee of U.S.$450 million or U.S.$200 million as discussed above.

Upon consummation, the Combination will be accounted for by NAR using the purchase method of accounting in accordance with Opinion No. 16, "Business Combinations," of the Accounting Principles Board of the American Institute of Certified Public Accountants. Under this method, NAR will prepare its financial statements reflecting the assets and liabilities of BNSF at their historical cost basis, and the fair value of the NAR common stock issued or issuable to CN shareholders will be allocated to the assets and liabilities of CN based on their relative fair value.

Following consummation of the Combination, the financial statements of CN will continue to be prepared on CN's historical cost basis.

Acquisition of Illinois Central Corporation

STB approval

On July 15, 1998, CN and IC filed a formal application with the STB seeking regulatory approval of CN's acquisition of control of IC and the integration of the companies' rail operations. On March 25, 1999, the STB gave verbal approval to the application of control. On May 25, 1999, the CN/IC merger received final, written approval of the STB. That decision was consistent with the March 25, 1999 voting conference. On July 1, 1999, the IC shares acquired by CN pursuant to the cash tender offer and second-step merger previously held in a voting trust pending final approval of the transaction by the STB were released and the Company began to exercise control over IC operations and assets.

Accounting treatment

The acquisition of IC was accounted for as a purchase. Prior to gaining control of IC, the Company accounted for its investment in IC using the equity method. Effective July 1, 1999, the Company assumed control of IC and, retroactive to January 1, 1999, the financial statements of IC are consolidated with those of the Company. For comparative purposes only, pro forma figures have been presented in Note 4 to the 1999 consolidated financial statements as if the Company had consolidated the results of IC on January 1, 1998.

Business risks

Certain information included in this report may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the outlook, the actual results or performance of the Company or the rail industry to be materially different from any future results or performance implied by such statements. Such factors include the factors set forth below as well as other risks detailed from time to time in reports filed by the Company with securities regulators in Canada and the United States.

Competition

The Company faces competition from a variety of carriers, including Canadian Pacific Limited, which operates the other major rail system in Canada serving most of the same industrial and population centers as CN, long distance trucking companies, river barges, pipeline carriers and, in certain markets, major U.S. railroads and other Canadian and U.S. railroads. Competition is generally based on the quality and reliability of service provided, price and the condition and suitability of carriers' equipment. Competition is particularly intense in eastern Canada, where an extensive highway network and population centers located relatively close to one another have encouraged significant competition from trucking companies and rail network over-capacity. In addition, much of the freight carried by the Company consists of commodity goods that are available from other sources in competitive markets. Factors affecting the competitive position of suppliers of these commodities, including exchange rates, could materially affect the demand for goods supplied by the sources served by the Company and, therefore, the Company's volumes, revenues and profit margins.

To a greater degree than other rail carriers, the Company's principal railroad subsidiary in the United States is vulnerable to barge competition because its main routes are parallel to the Mississippi River system. The use of barges for some commodities, particularly coal and grain, often represents a lower cost mode of transportation. Barge competition and barge rates are affected by navigational interruptions from ice, floods and droughts, which can cause widely fluctuating barge rates. The ability of the Company's principal railroad subsidiary in the United States to maintain its market share of the available freight has traditionally been affected by the navigational conditions on the river. As a result of barge competition, the revenue per ton mile of the Company's principal railroad subsidiary in the United States has generally been lower than industry averages for these commodities.

In recent years, there has been significant consolidation of rail systems in the United States. The resulting larger rail systems are able to offer seamless services in larger market areas and effectively compete with the Company in certain markets. There can be no assurance that the Company will be able to compete effectively against current and future competitors in the railroad industry and that further consolidation within the railroad industry would not adversely affect the Company's competitive position. No assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

The CN-BNSF combination requires STB approval. That approval may not be obtained and, if obtained, may impose conditions adversely affecting the expected benefits of the combination.

CN and BNSF are required to obtain STB approval before the combination may be completed. In addition to its customary considerations, and in a departure from its handling of prior railroad consolidation proceedings, the STB has decided that, in reviewing the transaction, it will consider evidence to be submitted by CN and BNSF, and other interested parties concerning the potential effects of future merger transactions that are likely to occur as a competitive response to the combination. There can be no assurance that the STB will approve the combination or that such approval, if obtained, will not be subject to burdensome requirements and other conditions that will diminish the expected benefits of the combination. Pending STB approval, CN and BNSF will operate as independent companies. Any delay in obtaining STB approval would delay receipt of the benefits of the combination.

Difficulties in effectively coordinating the businesses or other factors could also adversely affect the expected benefits of the CN-BNSF combination.

The combination involves the coordination of two previously independent businesses to provide shippers enhanced rail services over a coordinated network. There can be no assurance that CN and BNSF will be able to coordinate their businesses without encountering operational difficulties or experiencing the loss of key CN or BNSF employees or customers, or that there will be realization of rail service and other efficiencies that are expected to be derived from this coordination. For these and other reasons, there can be no assurance that the estimated annual synergies expected to result from the combination will be realized.

Environment

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred over the next several years for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities.

The Company's subsidiary, Illinois Central Railroad (ICRR), is one of nine defendants in a class action arising from a tank car fire in New Orleans in 1987. A group of five of the defendants, including the ICRR, have reached an agreement to settle their potential liability for a total of U.S.$152.5 million. The settlement is subject to approval by the Civil

District Court for the Parish of Orleans, which has set it for hearing on March 22, 2000. In ICRR's judgment, it has made adequate provision for disposition of the matter.

In the operation of a railroad it is possible that derailments, explosions or other accidents may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future which may be material to address any such harm, including costs relating to the performance of clean-ups, natural resource damage and compensatory or punitive damages relating to harm to individuals or property.

Because the ultimate cost of known contaminated sites cannot be definitely established, and because additional contaminated sites yet unknown may be discovered or future operations may result in accidental releases, no assurance can be given that the Company will not incur material environmental liabilities in the future.

As at December 31, 1999, the Company had aggregate accruals for environmental costs of $96 million ($65 million at December 31, 1998, excluding IC). The Company has not included any reduction in costs for anticipated recovery from insurance.

Legal actions

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions for such items which it considers to be adequate. While the final outcome with respect to actions outstanding or pending as at December 31, 1999 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Labor negotiations

The Company's collective agreements with all Canadian unions expired on December 31, 1997. Following bargaining from late 1997 to mid-1998, all of the unionized workforce in Canada had concluded and ratified three-year collective agreements as of the end of 1998.

The Company is also in negotiation or has concluded agreements with bargaining units in the United States representing employees at: Grand Trunk Western (GTW), Duluth Winnipeg and Pacific (DWP), Illinois Central (IC) and CCP Holdings, Inc. (CCP).

The Company has in place ratified agreements with bargaining units representing 56% of the unionized workforce at GTW and DWP. Meetings are ongoing with the balance of the bargaining units with which the Company has not yet achieved final settlements. Under the Rail Labor Act, there are no time limits to free collective bargaining. Furthermore, there are no statutory limits governing the mediation process. If, after its mediatory efforts, the National Mediation Board concludes that the parties have reached an impasse, it then proffers binding arbitration to resolve the dispute. If either party rejects that proffer, the parties may then, after a period of time, exercise self help.

The Company is in mediation with the Allied Services Division of the Transportation Communications Union at GTW (about 30 employees) and the Transportation Communications Union – Carman Division at DWP (about nine employees).

Approximately 90% of IC employees are unionized, represented by 11 unions. To date, all of IC's principal railroad subsidiary's 11 bargaining units have ratified local agreements that resolve wage and work-rule issues through 1999 for all non-operating crafts, except the BMWE, for which the agreement is valid through 2002, and through 2000 for engineers and trainmen.

At CCP, negotiations are ongoing with the United Transportation Union, Brotherhood of Locomotive Engineers, Brotherhood of Railway Signalmen and Transportation Communications Union (clerical and carmen). The balance of bargaining units have ratified agreements in place through to the end of 2002. Until new agreements are reached, cost-of-living allowance provisions and other terms in previous agreements will continue.

Regulation

The Company's Canadian rail operations are subject to regulation by the Canadian Transportation Agency (CTA) and the federal Minister of Transport under the CTA, the Railway Safety Act (Canada) and certain other statutes. The Company's U.S. rail operations are subject to regulation by the STB. In addition, the Company is subject to a variety of health, safety, labor, environmental and other regulations, all of which can affect its competitive position and profitability.

Financial instruments

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. The Company has entered into a forward exchange contract (currency swap) with respect to its 15-year Swiss franc bonds. This forward exchange contract acts as a hedge to effectively fix the amount of Canadian dollars required over the term of the debt to make all necessary payments in the foreign currency of issue. The Company has not incurred any significant net gains or losses in respect of this transaction. Losses due to non-performance by the counterparty to its foreign currency swap are not anticipated. Collateral or other security to support financial instruments subject to credit risk is usually not obtained; however, the credit standing of counterparties is regularly monitored.

The Company uses derivative financial instruments from time to time to hedge the exposure to interest rate fluctuations on anticipated transactions.

The Company has a hedging program in place to mitigate the effects of fuel price changes on its operating margins and overall profitability. Various swaps and collar agreements are in place to mitigate the risk of fuel price volatility. The realized gains in 1999 were $5 million. Hedging positions and credit ratings of counterparties are monitored and losses due to counterparty non-performance are not anticipated. During 1999, the Company hedged approximately 38% of the estimated 1999 fuel consumption, and at December 31, 1999, 27% of the estimated 2000 fuel consumption was hedged. Unrecognized gains from the Company's fuel hedging activities were $9 million as at December 31, 1999.

Other risks

In any given year, the Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports. Many of the goods and commodities carried by the Company experience cyclicality in demand. However, many of the bulk commodities the Company transports move offshore and are impacted more by global economic conditions than North American economic cycles. The Company's results of operations can be expected to reflect this cyclicality because of the significant fixed costs inherent in railroad operations. The Company's revenues are affected by prevailing economic conditions, and should an economic slowdown or recession occur in North America or other key markets, the volume of rail shipments carried by the Company is likely to be reduced.

In addition to the inherent risks of the business cycle, the Company is occasionally susceptible to severe weather conditions. For example, in late 1996 and the first quarter of 1997, CN's operations in western Canada were impacted by heavy snowfalls and severe cold weather which caused blockages on the main line serving Vancouver and led to equipment failures, temporarily halting train operations. In the first quarter of 1998, a severe ice storm hit eastern Canada which disrupted operations and service for the railroad as well as CN customers.

Generally accepted accounting principles require the use of historical cost as the basis of reporting in financial statements. As a result, the cumulative effect of inflation, which has significantly increased asset replacement costs for capital-intensive companies such as the Company, is not reflected in operating expenses. Depreciation charges on an inflation-adjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

Management Report

The accompanying consolidated financial statements of Canadian National Railway Company and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in the United States. These statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the Company, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this report principally through its Audit and Finance Committee, consisting solely of outside directors. The Audit and Finance Committee reviews the Company's annual consolidated financial statements and recommends their approval by the Board of Directors. Also, the Audit and Finance Committee meets regularly with the Chief, Internal Audit, and with the shareholders' auditors.

These consolidated financial statements have been audited by the shareholders' auditors, KPMG LLP, whose report is presented below.

Claude Mongeau
Senior Vice-President and Chief Financial Officer

January 25, 2000

Auditors' Report

To the Board of Directors of Canadian National Railway Company

We have audited the consolidated balance sheets of Canadian National Railway Company as at December 31, 1999 and 1998 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998, and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1999, in accordance with generally accepted accounting principles in the United States.

KPMG LLP

KPMG LLP
Chartered Accountants

Montreal, Canada
January 25, 2000

Consolidated Statement of Income

In millions, except per share data — *Year ended December 31,*	1999	1998	1997
Revenues			
Petroleum and chemicals	$ 878	$ 578	$ 560
Metals and minerals	398	319	310
Forest products	995	817	809
Coal	402	342	401
Grain and fertilizers	1,066	798	941
Intermodal	810	712	716
Automotive	483	377	423
Other items	204	135	123
Total revenues	5,236	4,078	4,283
Operating expenses			
Labor and fringe benefits	1,509	1,293	1,328
Purchased services	569	450	462
Depreciation and amortization	490	316	315
Equipment rents	328	291	334
Fuel	308	263	349
Material	204	176	256
Operating taxes	172	170	185
Casualty and other	189	111	127
Special charge *(Note 14)*	–	590	–
Total operating expenses	3,769	3,660	3,356
Operating income	1,467	418	927
Interest expense *(Note 15)*	(314)	(242)	(117)
Equity in earnings of Illinois Central Corporation *(Note 4)*	–	105	–
Other income *(Note 16)*	55	17	24
Income from continuing operations before income taxes	1,208	298	834
Income tax expense from continuing operations *(Note 17)*	(462)	(74)	(365)
Income from continuing operations	746	224	469
Discontinued operations (net of applicable income taxes) *(Note 18)*	–	–	(18)
Cumulative effect of changes in accounting policy (net of applicable income taxes) *(Note 2)*	5	42	589
Net income	$ 751	$ 266	$1,040
Basic earnings per share (Note 20)			
Income from continuing operations	$ 3.78	$ 1.22	$ 2.75
Net income	$ 3.81	$ 1.45	$ 6.11
Diluted earnings per share (Note 20)			
Income from continuing operations	$ 3.71	$ 1.21	$ 2.72
Net income	$ 3.74	$ 1.44	$ 6.03

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

In millions *Year ended December 31,*	1999	1998	1997
Net income	**$ 751**	$ 266	$1,040
Other comprehensive income (loss):			
Unrealized foreign exchange gain (loss) on translation of U.S. dollar denominated long-term debt designated as a hedge of the Illinois Central Corporation investment	**180**	(246)	–
Unrealized foreign exchange gain (loss) on translation of net investment in Illinois Central Corporation	**(202)**	259	–
Minimum pension liability adjustment	**2**	(2)	–
Other comprehensive income (loss) before income taxes	**(20)**	11	–
Income tax (expense) recovery on other comprehensive income (loss) items	**8**	(5)	–
Other comprehensive income (loss) *(Note 23)*	**(12)**	6	–
Comprehensive income	**$ 739**	$ 272	$1,040

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

In millions	*December 31,*	1999	1998
Assets			
Current assets:			
Cash and cash equivalents		$ 305	$ 262
Accounts receivable *(Note 5)*		800	399
Material and supplies		115	131
Deferred income taxes *(Note 17)*		146	131
Other		149	115
		1,515	1,038
Properties *(Note 6)*		14,620	6,803
Investment in Illinois Central Corporation *(Note 4)*		–	3,821
Other assets and deferred charges		295	290
Total assets		$16,430	$11,952
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued charges *(Note 8)*		$ 1,373	$ 1,158
Current portion of long-term debt *(Note 10)*		271	133
Other		120	89
		1,764	1,380
Deferred income taxes *(Note 17)*		2,975	327
Other liabilities and deferred credits *(Note 9)*		1,287	1,205
Long-term debt *(Note 10)*		3,948	3,995
Convertible preferred securities *(Note 11)*		334	–
Shareholders' equity:			
Common shares *(Note 11)*		4,597	4,141
Accumulated other comprehensive income (loss) *(Note 23)*		(6)	6
Retained earnings		1,531	898
		6,122	5,045
Total liabilities and shareholders' equity		$16,430	$11,952

On behalf of the Board:

David G.A. McLean
Director

Paul M. Tellier
Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

In millions	Issued and outstanding common shares	Common shares	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balances December 31, 1996	169.8	$ 3,263	$ –	$ (231)	$ 3,032
Net income	–	–	–	1,040	1,040
Stock options exercised and employee share plans *(Note 12)*	1.4	16	–	–	16
Dividends ($0.46 per share)	–	–	–	(78)	(78)
Balances December 31, 1997	171.2	3,279	–	731	4,010
Net income	–	–	–	266	266
Shares issued in second-step acquisition of Illinois Central Corporation	20.2	824	–	–	824
Stock options issued in second-step acquisition of Illinois Central Corporation	–	25	–	–	25
Stock options exercised and employee share plans *(Note 12)*	0.4	13	–	–	13
Other comprehensive income *(Note 23)*	–	–	6	–	6
Dividends ($0.53 per share)	–	–	–	(99)	(99)
Balances December 31, 1998	191.8	4,141	6	898	5,045
Net income	–	–	–	751	751
Shares issued *(Note 11)*	9.2	404	–	–	404
Stock options exercised and employee share plans *(Note 12)*	1.4	52	–	–	52
Other comprehensive loss *(Note 23)*	–	–	(12)	–	(12)
Dividends ($0.60 per share)	–	–	–	(118)	(118)
Balances December 31, 1999	202.4	$4,597	$ (6)	$1,531	$6,122

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions *Year ended December 31,*	1999	1998	1997
Operating activities			
Income from continuing operations and cumulative effect of changes in accounting policy	$ 751	$ 266	$1,058
Non-cash items in income:			
Special charge *(Note 14)*	–	590	–
Cumulative effect of changes in accounting policy *(Note 2)*	(5)	(42)	(589)
Depreciation and amortization *(Note 19 (B))*	496	319	317
Deferred income taxes *(Note 17)*	417	56	355
Equity in earnings of Illinois Central Corporation *(Note 4)*	–	(105)	–
Gain on sale of interest in joint venture	–	–	(21)
Other	(2)	–	–
Changes in:			
Accounts receivable *(Note 5)*	(157)	267	5
Material and supplies	38	19	6
Accounts payable and accrued charges *(Note 8)*	63	65	18
Other net current assets and liabilities	(27)	(3)	(54)
Payments for workforce reduction	(219)	(187)	(197)
Other	(77)	(8)	23
Cash provided from continuing operations	1,278	1,237	921
Investing activities			
Net additions to properties *(Note 19 (B))*	(936)	(744)	(609)
Net proceeds from disposal of properties	36	54	63
Net proceeds from sale of interest in joint venture	–	–	23
Investment in Illinois Central Corporation *(Note 4)*	–	(2,608)	–
Other	2	(1)	9
Cash used by investing activities	(898)	(3,299)	(514)
Dividends paid to shareholders	(118)	(99)	(78)
Financing activities			
Issuance of long-term debt	456	4,589	13
Issuance of convertible preferred securities *(Note 11)*	339	–	–
Reduction of long-term debt	(1,508)	(2,543)	(80)
Issuance of common shares *(Note 11)*	440	13	16
Cash provided from (used by) financing activities	(273)	2,059	(51)
Cash used by discontinued operations *(Note 18)*	–	–	(20)
Net increase (decrease) in cash	(11)	(102)	258
Cash and cash equivalents, beginning of year*	316	364	106
Cash and cash equivalents, end of year	$ 305	$ 262	$ 364

** The cash and cash equivalents balance at the beginning of 1999 includes the cash and cash equivalents of Illinois Central Corporation which has been consolidated beginning in 1999.*

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

CN, directly and through its subsidiaries, is engaged primarily in the rail transportation business. CN spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the Canadian ports of Vancouver, Prince Rupert, Montreal and Halifax, and Gulf of Mexico ports in New Orleans, Louisiana and Mobile, Alabama, and the key cities of Vancouver, Edmonton, Calgary, Winnipeg, Montreal, Toronto, Buffalo, Chicago, Detroit, Memphis, St. Louis and Jackson, Mississippi, with connections to all points in North America. CN's revenues are derived from the movement of a diversified and balanced portfolio of goods, including petroleum and chemicals, grain and fertilizers, coal, metals and minerals, forest products, intermodal and automotive.

1 Summary of significant accounting policies

These consolidated financial statements are expressed in Canadian dollars, except where otherwise indicated, and have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

A. Principles of consolidation

These consolidated financial statements include the accounts of all subsidiaries, including Illinois Central Corporation (IC) for which the Company acquired control effective July 1, 1999 and has consolidated IC's financial statements retroactive to January 1, 1999. During 1998, the Company accounted for its investment in IC using the equity method of accounting pending approval of the acquisition of control of IC from the U.S. Surface Transportation Board (STB). The Company's investments, in which it has significant influence, are also accounted for using the equity method.

B. Revenues

Freight revenues are recognized based on the percentage of completed service method. Costs associated with movements are recognized as the service is performed.

C. Foreign exchange

The Company's U.S. operations, excluding IC, are classified as integrated with the Canadian dollar as the functional currency and are translated into Canadian dollars and accounted for on the following basis: monetary assets and liabilities are translated at the rates in effect at the balance sheet date; non-monetary assets and liabilities are translated at historical exchange rates; revenues and expenses are translated at average exchange rates during the year except for depreciation, which is translated at exchange rates prevailing when the related properties were acquired; and other currency gains and losses are reflected in net income for the year. The Company's own foreign denominated assets and liabilities are accorded similar treatment.

IC is considered a self-sustaining foreign entity with the U.S. dollar as its functional currency. Accordingly, IC's assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date, and the revenues and expenses, including the equity in earnings of IC for 1998, are translated at average exchange rates during the year.

The Company has designated all of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in IC. Unrealized foreign exchange gains and losses, from the date of designation, on the translation of the Company's U.S. dollar denominated debt are included in Accumulated other comprehensive income, which forms part of Shareholders' equity, along with the unrealized foreign exchange gains and losses on the translation of the Company's net investment in IC.

D. Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

E. Material and supplies

The inventory is valued at weighted-average cost for ties and rails, latest invoice price for fuel and new materials in stores, and at estimated utility or sales value for usable secondhand, obsolete and scrap materials.

F. Properties

Railroad properties are carried at cost less accumulated depreciation including asset impairment write-downs. All costs of labor, materials and other costs associated with the installation of rail, ties, ballast and other track improvements are capitalized to the extent they meet the Company's definition of "unit of property." Additions to other property and equipment include the cost of developing computer software for internal use. Maintenance costs are expensed as incurred.

The cost of railroad properties, less salvage value, retired or disposed of in the normal course of business is charged to accumulated depreciation, in accordance with the group method of depreciation. Losses resulting from significant line sales or abandonments are recognized upon the announcement of the disposition. Gains are recognized when they are realized. The Company reviews the carrying amounts of properties whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows or estimated net realizable value. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

1 Summary of significant accounting policies *(continued)*

G. Depreciation

The cost of properties, net of asset impairment write-downs, is depreciated on a straight-line basis over their estimated useful lives as follows:

Asset class	Annual rate
Track and roadway	2%
Buildings	3%
Rolling stock	3%
Other	2%

The Company performs periodic reviews of its depreciation rates. Adjustments to rates resulting from such reviews have not had a material impact on operating results.

H. Pensions

Pension costs are determined periodically by independent actuaries. Pension expense is charged to operations and includes:

(i) the cost of pension benefits provided in exchange for employees' services rendered during the year,

(ii) the amortization of the initial net transition obligation on a straight-line basis over the expected average remaining service life of the employee group covered by the plans,

(iii) the amortization of past service costs and amendments over the expected average remaining service life of the employee group covered by the plans, and

(iv) the interest cost of pension obligations, the return on pension fund assets, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets over the expected average remaining service life of the employee group covered by the plans.

The pension plans are funded through contributions determined in accordance with the projected unit credit actuarial cost method.

I. Post-retirement benefits other than pensions

The Company accrues the cost of post-retirement benefits other than pensions. These benefits, which are funded by the Company as they become due, include life insurance programs, medical benefits, supplemental pension allowances and free rail travel benefits.

The Company amortizes the cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets over the expected average remaining service life of the employee group covered by the plans.

J. Financial instruments

Derivative financial instruments may be used from time to time by the Company in the management of its fuel, interest rate and foreign currency exposures. Gains or losses on such instruments entered into for the purposes of hedging financial risk exposures are deferred and amortized in the results of operations over the life of the hedged asset or liability, or over the terms of the derivative financial instrument. Income and expense related to financial instruments are recorded in the same category as that generated by the underlying asset or liability.

K. Environmental expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are likely, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated.

L. Income taxes

The Company follows the asset and liability method for accounting for income taxes. Under the asset and liability method, the change in the net deferred tax asset or liability is included in income. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

M. Recent accounting pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (FAS) 133 "Accounting for Derivative Instruments and Hedging Activities." The Statement is effective for the year ended December 31, 2001, however, early adoption is permitted. FAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company is presently evaluating the impact FAS 133 will have on its ongoing results of operations.

2 Accounting changes

The Company has made certain changes in accounting policies to conform its policies with those generally accepted in the railroad industry.

1999

The Company changed its capitalization policies for certain expenditures relating to improvements of bridges and other structures and freight cars. The new policies involve capitalizing all major expenditures for work that extends the useful life and/or improves the functionality of the respective assets.

In addition, the Company changed its method of accounting for employee injury costs to reflect all elements of such costs (including compensation, health care and administration costs) based on actuarially developed estimates of the ultimate cost associated with employee injuries.

The cumulative effect of the capitalization policy changes at January 1, 1999 was a credit of $62 million (net of applicable income taxes), while the cumulative effect of the change in method of accounting for employee injury costs was a charge of $57 million (net of applicable income taxes). The impact of the accounting policy changes was to increase income from continuing operations for the year ended December 31, 1999 by $12 million.

1998

In 1998, the Company changed its accounting policy for pension costs and adopted the corridor approach to account for experience gains and losses, as described in FAS 87, "Employers' Accounting for Pensions," and FAS 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions." Accordingly, experience gains and losses within the specified corridor were not amortized in 1998. For the year ended December 31, 1997, pension expense and post-retirement costs included $10 million of amortization of net experience losses. The cumulative effect of the change in accounting policy was $42 million (net of applicable income taxes) as at January 1, 1998.

Effective January 1, 1998, the Company adopted Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In accordance with the requirements of this statement, this change has been applied prospectively. The impact of the adoption of SOP 98-1 was to increase net income by approximately $13 million for the year ended December 31, 1998.

1997

Beginning in 1997, the labor, material and related overheads of track replacement costs have been capitalized. The cumulative capitalization adjustment of $589 million (net of applicable income taxes) is reflected in 1997 net income.

3 Proposed combination of Canadian National and Burlington Northern Santa Fe

On December 18, 1999, CN and Burlington Northern Santa Fe Corporation (BNSF) entered into a Combination Agreement (the Combination) providing for the combination of the two companies. To comply with Canadian legal requirements that, among other things, prohibit any person and that person's associates from holding more than 15% of the voting rights in CN, while ensuring that the Combination will be tax efficient for each company's shareholders, the combined enterprise will consist of two public companies: North American Railways, Inc. (NAR), a newly incorporated company, and CN. Upon completion of the Combination, NAR will be the parent company of BNSF and will own all of the limited voting equity shares of CN.

Under the Combination, BNSF shareholders will receive one share of NAR common stock and one CN voting share for each BNSF share, and CN shareholders will receive, for each CN common share, 1.05 CN voting shares and either 1.05 shares of NAR common stock or 1.05 CN exchangeable shares. The CN exchangeable shares will be exchangeable at any time on a one-for-one basis for shares of NAR common stock. CN shareholders who elect to receive the CN exchangeable shares will also receive the right to vote on matters submitted to NAR shareholders in proportion to their economic interest in the combined companies. All shareholders will have voting interests in both NAR and CN, and economic interests in the combined companies. Dividends paid on the NAR common stock and the CN exchangeable shares will be equivalent.

Each share of NAR common stock will be "stapled" to a CN voting share and will trade as a single security. Similarly, each CN exchangeable share will be "stapled" to a CN voting share and will trade as a single security. In addition, CN will issue to NAR limited voting equity shares carrying 10.1% of the voting rights in CN and 100% of CN's equity. The result of these arrangements will be that, at all times, each company will have the same public shareholder base with each public shareholder effectively having the same economic benefits and voting rights on a per security basis.

The Combination is subject to, among other things, approval by the shareholders of CN and BNSF, as well as approvals by Quebec Superior Court and the STB. CN and BNSF currently expect that all regulatory approvals can be obtained and the transaction completed by mid-2001. Shareholders are expected to vote on the proposed Combination during the second quarter of 2000.

In accordance with the terms of the Combination, BNSF has agreed to pay CN a cash termination fee equal to U.S.$450 million and CN has agreed to pay BNSF a cash termination fee equal to U.S.$200 million in the event that the Combination is terminated under the following circumstances: i) an alternative proposal is made by a third party with respect to either BNSF or CN and thereafter the BNSF or CN shareholders vote not to adopt the Combination; or ii) where either of the BNSF or CN board of directors withdraws, adversely modifies or changes its approval or recommendation of the Combination, the transactions that it contemplates or the arrangement resolution; or iii) where BNSF or CN breach certain of their obligations with respect to soliciting and responding to proposals for alternative transactions related to the other party. In addition, if conditions are imposed by the STB that would significantly and adversely affect the economic benefits of the Combination to BNSF, CN and their shareholders, taken as a whole, BNSF or CN may elect not to consummate the transaction and pay termination fees of U.S.$300 million and U.S.$150 million, respectively.

In connection with the Combination, BNSF and CN have granted reciprocal stock options to each other with respect to, in the case of CN, approximately 29 million CN common shares and, in the case of BNSF, approximately 65 million shares of BNSF common stock. The number of shares subject to the stock options is subject to adjustment in each case so that the number of shares subject to the option will always be equal to but not exceed 12.5% of the outstanding common shares of the option issuer after giving effect to the issuance of shares of common stock under the option. The exercise price of an option is, in each case,

3 Proposed combination of Canadian National and Burlington Northern Santa Fe *(continued)*

the average of the closing price of the option issuer's common stock on the New York Stock Exchange on the five trading days preceding the date of notice of exercise. CN's grant of a stock option to BNSF is subject to the approval of The Toronto Stock Exchange, and BNSF's grant of a stock option to CN is not effective until The Toronto Stock Exchange gives its approval to CN. Each party's option is exercisable under the same circumstances in which that party is entitled to receive a termination fee of U.S.$450 million or U.S.$200 million as discussed above.

Upon consummation, the Combination will be accounted for by NAR using the purchase method of accounting in accordance with Opinion No. 16, "Business Combinations," of the Accounting Principles Board of the American Institute of Certified Public Accountants. Under this method, NAR will prepare its financial statements reflecting the assets and liabilities of BNSF at their historical cost basis, and the fair value of the NAR common stock issued or issuable to CN shareholders will be allocated to the assets and liabilities of CN based on their relative fair value.

Following consummation of the Combination, the financial statements of CN will continue to be prepared on CN's historical cost basis.

4 Acquisition and consolidation of Illinois Central Corporation

In 1998, the Company, through an indirect wholly owned subsidiary, acquired IC in a two-step transaction for a purchase price of approximately U.S.$2.4 billion payable as to 75% in cash and 25% in common shares of the Company. On March 14, 1998, the Company acquired 75% of the outstanding common shares of IC for $2,549 million (U.S.$1,796 million) or U.S.$39 per share. On June 4, 1998, the Company acquired the remaining 25% of the outstanding common shares of IC for 20.2 million shares of the Company's common stock. In addition, the outstanding IC stock options were exchanged for stock options of the Company.

Pending approval from the STB, the Company accounted for its investment in IC under the equity method of accounting in accordance with Accounting Principles Board Opinion (APB) 18, "The Equity Method of Accounting for Investments in Common Stock." The investment in IC at December 31, 1998 includes an investment of $3,398 million related to the acquisition of IC shares pursuant to the cash tender offer and the second-step merger, $259 million related to the translation of the investment to its current Canadian dollar equivalent, $59 million for transaction-related expenses, and $105 million of equity in the earnings of IC from the date of acquisition to December 31, 1998.

The Consolidated Statement of Income for the year ended December 31, 1998 includes various items related to the acquisition of IC, including $117 million pre-tax interest costs on debt associated with financing the cash tender offer. The $105 million equity in the earnings of IC included in the Consolidated Statement of Income for the year ended December 31, 1998 represents the Company's portion of IC's earnings from March 14, 1998, net of the amortization of the difference between the Company's cost to acquire IC and the underlying historical equity in net assets of IC, based on preliminary estimates of the fair values of IC's properties and equipment, and estimates of their remaining useful lives, as well as estimates of the fair values of other IC assets and liabilities. In total, items related to the IC acquisition increased net income for the year ended December 31, 1998 by $37 million. These amounts, as well as the impact of the issuance of shares pursuant to the second-step merger, increased the earnings per share by $0.14 for the year ended December 31, 1998. Excluding the 1998 special charge, the earnings per share increased by $0.01.

Effective July 1, 1999, the Company assumed control of IC and consolidated the results of IC since January 1, 1999. On July 1, 1999, the excess ($2,533 million) of the Company's investment in IC over IC's net equity was allocated using the principles of purchase accounting to properties ($4,212 million), deferred income taxes ($1,554 million), and debt and other liabilities ($125 million). The Company is amortizing the excess of the purchase price over IC's net equity using the principles of purchase accounting, based primarily on the estimated remaining useful lives of IC's properties.

The following table presents the pro forma condensed consolidated statement of income for the year ended December 31, 1998 assuming CN had acquired control of IC at the beginning of 1998, and the actual results from operations for 1999.

Canadian National Railway Company
Pro Forma Condensed Consolidated Statement of Income

In millions, except per share data — *Year ended December 31,*	1999	1998
		Pro forma
		(Unaudited)
Revenues	$5,236	$5,137
Operating expenses (1)	3,769	4,446
Operating income	1,467	691
Interest expense	(314)	(331)
Other income	55	23
Income before income taxes and cumulative effect of changes in accounting policy	1,208	383
Income tax expense	(462)	(130)
Income before cumulative effect of changes in accounting policy	746	253
Cumulative effect of changes in accounting policy (net of applicable income taxes)	5	42
Net income	$ 751	$ 295
Basic earnings per share		
Income before cumulative effect of changes in accounting policy	$ 3.78	$ 1.32
Net income	$ 3.81	$ 1.54
Diluted earnings per share		
Income before cumulative effect of changes in accounting policy	$ 3.71	$ 1.31
Net income	$ 3.74	$ 1.53

(1) 1998 includes a special charge of $590 million.

In 1998, the Company followed the equity method to account for its investment in IC. Accordingly, summary financial information for IC on its historical cost basis, for the year ended and as at December 31, 1998, is presented below:

Illinois Central Corporation
Condensed Consolidated Statement of Income

In millions of U.S.$ *Year ended December 31,*	1998
Revenues	$729
Operating expenses	521
Operating income	208
Other income	9
Interest expense	(41)
Income before income taxes	176
Income tax expense	(70)
Net income	$106

Operating expenses for the year ended December 31, 1998 included special charges of U.S.$49 million (U.S.$41 million after tax) for severance and other costs related to the merger.

Illinois Central Corporation
Condensed Consolidated Balance Sheet

In millions of U.S.$ *December 31,*	1998
Assets	
Current assets	$ 250
Non-current assets	1,924
Total assets	$2,174
Liabilities and stockholders' equity	
Current liabilities	$ 297
Long-term debt	557
Deferred taxes	443
Other liabilities	130
Stockholders' equity	747
Total liabilities and stockholders' equity	$2,174

5 Accounts receivable

In millions *December 31,*	1999	1998
Freight		
Trade	$441	$217
Accrued	161	48
Non-freight	244	175
	846	440
Provision for doubtful accounts	(46)	(41)
	$800	$399

On June 25, 1998, the Company entered into a five-year revolving agreement to sell eligible freight trade receivables up to a maximum of $250 million. At December 31, 1999, pursuant to the agreement, $147 million and U.S.$40 million (Cdn$58 million) had been sold on a limited recourse basis compared to $150 million and U.S.$45 million (Cdn$69 million) at December 31, 1998. The Company has retained the responsibility for servicing and collecting the accounts receivable sold. Costs related to the agreement, which fluctuate with changes in prevailing interest rates, are included in Other income.

6 Properties

In millions	*December 31, 1999*			*December 31, 1998*		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Track and roadway	$17,200	$5,634	$11,566	$10,640	$5,646	$4,994
Buildings	1,200	650	550	964	627	337
Rolling stock	3,328	1,143	2,185	2,303	1,062	1,241
Other	781	462	319	717	486	231
	$22,509	$7,889	$14,620	$14,624	$7,821	$6,803
Capital leases included in properties	$ 1,006	$ 115	$ 891	$ 620	$ 72	$ 548

7 Credit facilities

The Company has a U.S.$1,000 million revolving credit facility which expires in 2003. The credit facility provides for interest on borrowings at various interest rates including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offer Rate plus applicable margins. The credit facility agreement contains customary financial covenants, based on U.S. generally accepted accounting principles, including i) limitations on debt as a percentage of total capitalization, ii) maintenance of tangible net worth above predefined levels, and iii) maintenance of the fixed charge coverage ratio above predefined levels. The Company was in compliance with all of these financial covenants throughout the year. The Company's commercial paper program is backed up by the five-year revolving credit facility. In June 1999, the Company used proceeds from the sale of common shares and convertible preferred securities to repay U.S.$125 million (Cdn$185 million) of commercial paper and U.S.$310 million (Cdn$456 million) of the Company's revolving credit facility. In July 1999, the balance of the revolving credit facility was repaid. As at December 31, 1999, the Company had U.S.$6 million (Cdn$9 million) of commercial paper outstanding.

8 Accounts payable and accrued charges

In millions *December 31,*	1999	1998
Trade payables	$ 486	$ 308
Current portion of workforce reduction provisions	182	235
Payroll-related accruals	185	177
Accrued charges	195	155
Accrued interest on long-term debt	119	111
Accrued operating leases	29	85
Other	177	87
	$1,373	$1,158

9 Other liabilities and deferred credits

In millions *December 31,*	1999	1998
Workforce reduction provisions, net of current portion *(A)*	$ 517	$ 590
Accrual for post-retirement benefits other than pensions *(B)*	220	145
Personal injury reserve	218	108
Environmental reserve, net of current portion	66	38
Deferred credits and other	266	324
	$1,287	$1,205

A. Workforce reduction provisions

The workforce reduction provisions, which cover employees in both Canada and the United States, are mainly comprised of severance payments which will be disbursed over a period of up to six years. Other elements of the provisions mainly include early retirement incentives and bridging to early retirement. Payments for severance and other elements of the provisions have reduced the provisions by $219 million for the year ended December 31, 1999 ($187 million for the year ended December 31, 1998). The aggregate provisions amount to $699 million at December 31, 1999.

B. Post-retirement benefits other than pensions

(i) Change in benefit obligation

In millions *Year ended December 31,*	1999	1998
Benefit obligation at beginning of year	$172	$132
Consolidation of IC	67	–
Service cost	8	4
Interest cost	15	11
Foreign currency changes	(3)	2
Actuarial (gain) loss	(13)	30
Benefits paid	(16)	(7)
Benefit obligation at end of year	$230	$172

(ii) Funded status

In millions *December 31,*	1999	1998
Unfunded benefit obligation at end of year	$230	$172
Unrecognized net actuarial loss	(6)	(22)
Unrecognized prior service cost	(4)	(5)
Accrued benefit cost for post-retirement benefits other than pensions	$220	$145

(iii) Components of net periodic benefit cost

In millions *Year ended December 31,*	1999	1998	1997
Service cost	$ 8	$ 4	$ 3
Interest cost	15	11	7
Amortization of prior service cost	1	1	1
Recognized net actuarial (gain) loss	2	1	(2)
Net periodic benefit cost	$26	$17	$ 9

(iv) Weighted-average assumptions

December 31,	1999	1998	1997
Discount rate	7.39%	6.00%	7.44%
Rate of compensation increase	4.25%	4.25%	4.50%

The effect of a one-percentage-point increase or decrease in the assumed health care cost trend would be to increase or decrease the 1999 net periodic benefit cost by less than $1 million and the post-retirement benefit obligation by approximately $4 million.

10 Long-term debt

In millions	Maturity	Currency in which payable	December 31, 1999	1998
Bonds, debentures and notes: (A)				
Canadian National series:				
9¾% 7-year notes	May 14, 1999	Cdn$	$ –	$ 50
5⅝% 15-year Swiss franc bonds *(B)*	Aug. 22, 2000	CHF	99	99
8⅜% 15-year notes	May 21, 2001	Cdn$	150	150
6⅝% 10-year notes	May 15, 2003	U.S.$	218	230
7% 10-year notes	Mar. 15, 2004	U.S.$	386	407
6.45% Puttable Reset Securities (PURS) *(C)*	July 15, 2006	U.S.$	363	383
6.80% 20-year notes *(D)*	July 15, 2018	U.S.$	291	307
7⅝% 30-year debentures	May 15, 2023	U.S.$	218	230
6.90% 30-year notes *(D)*	July 15, 2028	U.S.$	690	728
Illinois Central series:				
6.83% 5-year notes	May 17, 2000	U.S.$	44	–
7.12% 5-year notes	Aug. 2, 2001	U.S.$	73	–
6.72% 5-year notes	Aug. 14, 2001	U.S.$	73	–
4% 2-year notes	Mar. 1, 2002	U.S.$	1	–
6¾% 10-year notes	May 15, 2003	U.S.$	145	–
Non-interest bearing 7-year notes	Nov. 29, 2003	U.S.$	1	–
7¾% 10-year notes	May 1, 2005	U.S.$	145	–
6.98% 12-year notes	July 12, 2007	U.S.$	73	–
6.63% 10-year notes	June 9, 2008	U.S.$	29	–
5% 99-year income debentures	July 1, 2032	U.S.$	1	–
5% 99-year income debentures	Dec. 1, 2056	U.S.$	12	–
7.7% 100-year debentures	Sep. 15, 2096	U.S.$	182	–
Total bonds, debentures and notes			3,194	2,584
Other:				
Revolving credit facility *(Note 7)*		U.S.$	–	337
Commercial paper *(E) (Note 7)*		U.S.$	9	532
Capital lease obligations, amounts owing under equipment agreements and other *(F)*		Various	1,029	683
Total other			1,038	1,552
Subtotal			4,232	4,136
Less:				
Current portion of long-term debt			271	133
Net unamortized discount			13	8
			284	141
			$3,948	$3,995

A. The Company's bonds, debentures and notes are unsecured.

B. The August 22, 2000 bonds issued in Swiss francs (CHF170 million), bearing an interest rate of 5⅝%, were effectively converted at their issue date to a $99 million Canadian dollar obligation through a currency swap agreement at an all-inclusive cost of 11.17%.

C. The PURS contain imbedded simultaneous put and call options at par. At the time of issuance, the Company sold the option to call the securities on July 15, 2006 (the reset date). If the call option is exercised, the imbedded put option is automatically triggered, resulting in the redemption of the original PURS. The call option holder will then have the right to remarket the securities at a new coupon rate for an additional 30-year term ending July 15, 2036. The new coupon rate will be determined according to a pre-set mechanism based on market conditions then prevailing. If the call option is not exercised, the put option is deemed to have been exercised, resulting in the redemption of the PURS on July 15, 2006.

D. The 20-year and 30-year notes are redeemable, in whole or in part, at the option of the Company, at any time, at the greater of par and a formula price based on interest rates prevailing at the time of redemption.

E. During 1998, the Company initiated a commercial paper program. The program enables the Company to issue commercial paper up to a maximum aggregate principal amount of $600 million or the U.S. dollar

10 Long-term debt *(continued)*

equivalent and is supported by the revolving credit facility. Commercial paper debt is due within one year but has been classified as long-term debt, reflecting the Company's intent and ability to refinance the short-term borrowing through subsequent issuances of commercial paper or drawing down on the revolving credit facility.

F. Interest rates for the capital leases range from approximately 3¾% to 14½% with maturity dates in the years 2000 through 2016. The imputed interest on these leases amounted to $577 million as at December 31, 1999, and $530 million as at December 31, 1998.

The equipment agreements are secured by rolling stock and payable by monthly or semi-annual installments over various periods to 2003 at interest rates ranging from 6% to 13.7%. The principal amounts are payable as follows: $39 million and U.S.$12 million (Cdn$17 million) as at December 31, 1999, and $44 million and U.S.$16 million (Cdn$25 million) as at December 31, 1998.

G. Principal repayments for the following fiscal years, including repurchase arrangements and capital lease repayments on debt outstanding as at December 31, 1999 but excluding repayments of commercial paper of $9 million (U.S.$6 million), are as follows:

Year	*In millions* Amount
2000	$ 271
2001	430
2002	93
2003	467
2004	462
2005 and thereafter	2,487

H. The aggregate amount of debt payable in U.S. currency as at December 31, 1999 is U.S.$2,332 million (Cdn$3,389 million) and as at December 31, 1998 is U.S.$2,343 million (Cdn$3,590 million).

I. During 1999, the Company recorded $337 million in assets and the corresponding debt for assets acquired through the exercise of purchase options on existing leases and leases for new equipment.

11 Capital stock and convertible preferred securities

A. Authorized capital stock

The authorized capital stock of the Company is as follows:

- Unlimited number of Common Shares, without par value
- Unlimited number of Class A Preferred Shares, without par value issuable in series
- Unlimited number of Class B Preferred Shares, without par value issuable in series

B. Issued and outstanding common shares

During 1999, the Company issued 9.2 million common shares as a result of the June 23, 1999 public offering. The Company also issued 1.4 million shares related to stock options exercised and employee share plans. The total number of common shares issued and outstanding was 202.4 million as at December 31, 1999.

C. Convertible preferred securities

On June 23, 1999, the Company issued 4.6 million convertible preferred securities at U.S.$50 per security. These securities are subordinated securities convertible into common shares of CN at the option of the holder at an original conversion price of U.S.$38.48 per common share, representing an original conversion rate of 1.2995 common shares for each convertible preferred security. On or after July 1, 2002, at the option of CN but subject to certain conditions, the holder's rights to convert these securities may be extinguished if the current market price exceeds 120% of the conversion price for a certain period. These securities will bear interest, payable quarterly in U.S. dollars, at a rate of 5.25% per year, and are due on June 30, 2029.

D. Stock split

On July 20, 1999, the Board of Directors of the Company approved a two-for-one common stock split which was effected in the form of a stock dividend of one additional common share of CN common stock payable for each share outstanding or held in treasury on September 27, 1999 to shareholders of record on September 23, 1999. All equity based benefit plans reflect the issuance of additional shares or options due to the declaration of the stock split. All share and per share data reflect the effect of the stock split.

E. Share repurchase program

On January 25, 2000, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 13 million common shares of the Company's common stock pursuant to a normal course issuer bid, at prevailing market prices.

12 Stock plans

A. Employee share plan

Effective September 1, 1997, an Employee Share Investment Plan (ESIP) was implemented giving eligible employees the opportunity to subscribe for up to 6% of their gross salaries to purchase shares of the Company's common stock on the open market and to have the Company invest, on the employee's behalf, a further 35% of the amount invested by the employee. Participation at December 31, 1999 was 7,359 employees (5,100 at December 31, 1998). The total number of ESIP shares purchased on behalf of employees, including the Company's contributions, was 375,681 in 1999 and 244,122 in 1998, resulting in a pre-tax charge to income of $5 million and $3 million for the years ended December 31, 1999 and 1998, respectively.

B. Stock options

The Company has stock option plans for eligible managers to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of granting. The options are exercisable during a period not to exceed 10 years. The right to exercise options generally accrues over a period of four years of continuous

employment. Options are not generally exercisable during the first 12 months after the date of grant. At December 31, 1999, a total of 9.6 million common shares remained authorized for issuance under these plans.

Options issued by the Company include conventional options, which vest over a period of time, and performance options, which vest upon the attainment of Company targets relating to the operating ratio and unlevered return on investment. The total conventional and performance options outstanding at December 31, 1999 were 4.1 million and 4.2 million, respectively.

Changes in the Company's stock options are as follows:

	Number of options	Weighted-average exercise price
	In millions	
Outstanding at December 31, 1996	3.1	$ 15.57
Granted	1.1	$ 28.29
Canceled	(0.3)	$ 15.53
Exercised	(0.3)	$ 14.75
Outstanding at December 31, 1997	3.6	$ 19.43
Conversion of IC options	3.0	U.S.$ 22.57
Granted	1.3	$ 37.35
Canceled	(0.4)	$ 20.22
Exercised	(0.4)	$ 19.42
Outstanding at December 31, 1998 [1]	7.1	$ 29.11
Granted	3.0	$ 45.46
Canceled	(0.4)	$ 34.51
Exercised	(1.4)	$ 25.43
Outstanding at December 31, 1999 [1]	**8.3**	**$34.88**

(1) Includes the IC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

C. Stock-based compensation expense

Compensation expense for certain performance-based stock-option awards under these plans is determined by the options' intrinsic value in accordance with APB 25, "Accounting for Stock Issued to Employees," and related interpretations. Compensation expense recognized for stock-based awards was $7 million, $13 million and $17 million in 1999, 1998 and 1997, respectively. Had compensation expense been determined based upon fair values at the date of grant for awards under all plans, consistent with the methods of FAS 123, "Accounting for Stock-Based Compensation," the Company's pro forma net income and earnings per share would have been as follows:

Year ended December 31,	**1999**	1998	1997
Net income *(in millions)*	**$ 740**	$ 270	$1,051
Basic earnings per share	**$3.75**	$1.47	$ 6.18
Diluted earnings per share	**$3.68**	$1.46	$ 6.10

These pro forma amounts include compensation cost as calculated using the Black-Scholes option pricing model with the following assumptions:

Year ended December 31,	**1999**	1998	1997
Expected option life *(years)*	**7.0**	7.0	7.0
Risk-free interest rate	**6.64%**	5.52%	6.05%
Expected stock price volatility	**30%**	30%	30%
Average dividend per share	**$ 0.60**	$ 0.53	$ 0.46

Year ended December 31,	**1999**	1998	1997
Weighted-average fair value of options granted	**$18.93**	$14.36	$10.47

Stock options outstanding and exercisable as at December 31, 1999 were as follows:

	Options outstanding				Options exercisable	
	Range of exercise prices	Number of options	Weighted-average years to expiration	Weighted-average exercise price	Number of options	Weighted-average exercise price
		In millions			*In millions*	
Options granted in 1995	$13.50	0.7	3	$ 13.50	0.7	$ 13.50
Options granted in 1996	$18.52–$23.72	0.7	3	$ 18.66	0.3	$ 18.73
Options granted in 1997	$24.85–$38.75	0.7	5	$ 28.33	0.2	$ 28.67
Options granted in 1998 [1]	$ 9.25–$46.25	3.3	7	$ 34.91	2.3	$ 33.91
Options granted in 1999	$36.14–$49.45	2.9	9	$ 45.40	–	–
Balance at December 31, 1999 [1]		**8.3**	**7**	**$34.88**	**3.5**	**$28.16**

(1) Includes the IC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

13 Pensions

The Company has retirement benefit plans under which substantially all employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. The tables that follow pertain to all such plans. However, the following descriptions relate solely to the Company's main pension plan, the CN Pension Plan. The Company's other pension plans are not significant.

Description of plan

The CN Pension Plan (the Pension Plan) is a contributory defined benefit pension plan that covers substantially all CN employees. It provides for pensions based mainly on years of service and final average pensionable earnings and is generally applicable from the first day of employment. Indexation of pensions is provided after retirement through a gain (loss) sharing mechanism, subject to guaranteed minimum increases. An independent trust company is the Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds). As Trustee, the trust company performs certain duties which include holding legal title to the assets of the CN Pension Trust Funds and ensuring that the Company, as Administrator, complies with the provisions of the Pension Plan and the related legislation.

Funding policy

Employee contributions to the Pension Plan are determined by the plan rules. Company contributions are in accordance with the requirements of the Government of Canada legislation, The Pension Benefits Standards Act, 1985, and are determined by actuarial valuations conducted at least on a triennial basis. These valuations are made in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans.

Description of fund assets

The assets of the CN Pension Plan are accounted for separately in the CN Pension Trust Funds. These assets consist of cash and short-term investments, bonds, mortgages, Canadian and foreign equities, real estate, and oil and gas assets.

(a) Change in benefit obligation

In millions *Year ended December 31,*	1999	1998
Benefit obligation at beginning of year	$10,540	$ 9,151
Amendments	–	212
Service cost	95	81
Interest cost	632	629
Plan participants' contributions	73	76
Foreign currency changes	(3)	7
Effect of curtailment	–	23
Actuarial (gain) loss	(746)	1,006
Benefit payments and transfers	(656)	(645)
Benefit obligation at end of year	$ 9,935	$10,540

(b) Change in plan assets

In millions *Year ended December 31,*	1999	1998
Fair value of plan assets at beginning of year	$10,728	$ 9,984
Actual return on plan assets	1,567	1,229
Employer contributions	59	77
Plan participants' contributions	73	76
Foreign currency changes	(3)	7
Benefit payments and transfers	(656)	(645)
Fair value of plan assets at end of year	$11,768	$10,728

(c) Funded status

In millions *December 31,*	1999	1998
Excess of fair value of plan assets over benefit obligation at end of year [(1)]	$1,833	$ 188
Unrecognized net actuarial gain [(1)]	(1,976)	(372)
Unrecognized net transition obligation	78	96
Unrecognized prior service cost	172	193
Net amount recognized	$ 107	$ 105

(1) Subject to future gain sharing under the terms of the plan.

(d) Amount recognized in the Consolidated Balance Sheet

In millions *December 31,*	1999	1998
Prepaid benefit cost	$ 113	$ 112
Accrued benefit cost	(6)	(7)
Additional minimum liability	–	(5)
Intangible asset	–	3
Accumulated other comprehensive income	–	2
Net amount recognized	$ 107	$ 105

(e) Components of net periodic benefit cost

In millions *Year ended December 31,*	1999	1998	1997
Service cost	$ 95	$ 81	$ 51
Interest cost	632	629	613
Expected return on plan assets	(732)	(701)	(657)
Amortization of net transition obligation	19	21	20
Amortization of prior service cost	20	20	2
Recognized net actuarial loss	23	–	12
Net periodic benefit cost	$ 57	$ 50	$ 41

(f) Weighted-average assumptions

December 31,	1999	1998	1997
Discount rate	7.00%	6.00%	6.50%
Rate of compensation increase	4.25%	4.25%	4.50%
Expected return on plan assets for year ending December 31	9.00%	9.00%	8.25%

As at December 31, 1998, one of the Company's pension plans had an accumulated benefit obligation ($114 million) in excess of the fair value of the plan assets ($102 million) which gives rise to additional minimum pension liability. The projected benefit obligation was $119 million at December 31, 1998.

14 Special charge

The Company recorded a charge to operations of $590 million in 1998 for workforce reduction plans aimed at reducing future operating costs and increasing productivity. The charge includes severance and other payments to be made for approximately 3,000 reductions (1,400 occurred in 1998; 1,300 occurred in 1999; and the remainder are to be made in 2000). Labor productivity and operating efficiency initiatives span the entire organization with reductions in the administration, transportation, engineering and equipment functions. The majority of payments related to workforce reductions are expected to occur throughout the next six years.

15 Interest expense

In millions — *Year ended December 31,*	1999	1998	1997
Interest on long-term debt	$319	$257	$121
Interest on short-term borrowings	–	2	2
Interest income	(5)	(17)	(6)
Total continuing operations	$314	$242	$117
Cash interest payments for continuing operations	$311	$192	$109

16 Other income

In millions — *Year ended December 31,*	1999	1998	1997
Gain on disposal of properties	$ 56	$ 51	$ 37
Investment income	21	20	19
Net rental loss	(25)	(20)	(10)
Foreign exchange gain (loss)	4	(26)	(38)
Income (loss) from Canac Inc.	1	5	(2)
Gain on sale of interest in joint venture	–	–	21
Other	(2)	(13)	(3)
	$ 55	$ 17	$ 24

17 Income taxes

The Company's income tax expense from continuing operations is as follows:

In millions — *Year ended December 31,*	1999	1998	1997
Combined basic Canadian federal and provincial tax rate (combined basic tax rate)	44.4%	44.4%	44.4%
Income tax expense from continuing operations based on the combined basic tax rate	$(536)	$(132)	$(370)
Income tax (expense) recovery resulting from:			
Federal large corporations tax and other taxes	(12)	(18)	(10)
U.S. tax rate differential	38	–	–
Gain on disposal of properties	8	8	4
Equity in earnings of IC	–	47	–
Other	40	21	11
Income tax expense from continuing operations	$(462)	$ (74)	$(365)
Income tax expense from continuing operations is represented by:			
Current	$ (45)	$ (18)	$ (10)
Deferred	(417)	(56)	(355)
	$(462)	$ (74)	$(365)
Income tax recovery related to discontinued operations	$ –	$ –	$ 12
Cash payments for income taxes	$ 45	$ 18	$ 10

Significant components of deferred income tax assets and liabilities are as follows:

In millions — *December 31,*	1999	1998
Deferred income tax assets		
Loss carryforwards	$ 39	$222
Workforce reduction provisions	266	352
Accruals and other reserves	186	76
Post-retirement benefits	89	20
	580	670
Deferred income tax liabilities		
Properties	3,409	866
	3,409	866
Total net deferred income tax liability	2,829	196
Net current deferred income tax asset	146	131
Net long-term deferred income tax liability	$2,975	$327

18 Discontinued operations

Consistent with the Company's plan to focus resources on operating a transportation network, in late 1997 the Company adopted a formal plan to exit its telecommunication business operated by a subsidiary. The 1997 loss from discontinued operations is comprised of $6 million, after

18 Discontinued operations *(continued)*

tax, related to losses from this business and a $12 million after-tax provision for loss on disposal. The assets and liabilities of discontinued operations reflected in the Consolidated Balance Sheet are insignificant. The cash used by discontinued operations in 1997 was $20 million.

19 Segmented information

A. Geographic areas

The Company operates in one business segment with operations and assets in Canada and the United States.

B. Information on geographic areas

In millions *Year ended December 31,*	1999	1998	1997
Revenues:			
Canadian rail	$ 3,524	$ 3,500	$ 3,726
U.S. rail	1,712	578	557
	$ 5,236	$ 4,078	$ 4,283
Operating income:			
Canadian rail	$ 1,015	$ 381	$ 846
U.S. rail	452	37	81
	$ 1,467	$ 418	$ 927
Income (loss) from continuing operations:			
Canadian rail	$ 565	$ 225	$ 417
U.S. rail	181	(106)	52
Equity in earnings of IC	–	105	–
	$ 746	$ 224	$ 469
Depreciation and amortization:			
Canadian rail *(i)*	$ 294	$ 304	$ 303
U.S. rail	202	15	14
	$ 496	$ 319	$ 317
Capital expenditures: (ii)			
Canadian rail *(iii)*	$ 954	$ 787	$ 745
U.S. rail	324	84	48
	$ 1,278	$ 871	$ 793

In millions *December 31,*	1999	1998
Identifiable assets:		
Canadian rail	$ 8,189	$ 7,713
U.S. rail	8,227	404
Investment in IC	–	3,821
	16,416	11,938
Discontinued operations	14	14
	$16,430	$11,952

(i) Includes $6 million (1998: $3 million, 1997: $2 million) depreciation and amortization of properties related to net rental income and Canac Inc.

(ii) Represents additions to properties.

(iii) Includes $11 million (1998: $17 million, 1997: $5 million) of additions of properties related to net rental income and Canac Inc. This amount also includes non-cash capital expenditures financed with capital leases and capitalized depreciation.

20 Earnings per share

The 1998 and 1997 figures have been adjusted for the two-for-one stock split (see Note 11(D)).

Year ended December 31,	1999	1998	1997
Basic earnings per share			
Income from continuing operations	$3.78	$1.22	$ 2.75
Discontinued operations	–	–	(0.11)
Cumulative effect of changes in accounting policy	0.03	0.23	3.47
Net income	$3.81	$1.45	$ 6.11
Diluted earnings per share			
Income from continuing operations	$3.71	$1.21	$ 2.72
Discontinued operations	–	–	(0.11)
Cumulative effect of changes in accounting policy	0.03	0.23	3.42
Net income	$3.74	$1.44	$ 6.03

The following table provides a reconciliation between basic and diluted earnings per share:

In millions, except per share data *Year ended December 31,*	1999	1998	1997
Income from continuing operations	$ 746	$ 224	$ 469
Income impact on assumed conversion of preferred securities	$ 6	$ –	$ –
Weighted-average shares outstanding	197.3	183.1	170.1
Effect of dilutive securities and stock options	5.2	1.7	2.3
Weighted-average diluted shares outstanding	202.5	184.8	172.4
Basic earnings per share from continuing operations	$ 3.78	$ 1.22	$ 2.75
Diluted earnings per share from continuing operations	$ 3.71	$ 1.21	$ 2.72

Pro forma amounts assuming retroactive application of new accounting policies:

In millions, except per share data *Year ended December 31,*	1999	1998	1997
Income from continuing operations	$ 746	$ 214	$ 484
Basic earnings per share	$3.78	$1.17	$2.85
Diluted earnings per share	$3.71	$1.16	$2.81
Net income	$ 746	$ 214	$ 466
Basic earnings per share	$3.78	$1.17	$2.74
Diluted earnings per share	$3.71	$1.16	$2.70

21 Major commitments and contingencies

A. Leases

The Company's commitments as at December 31, 1999 under operating and capital leases totaling $893 million and $1,482 million, respectively, with annual net minimum payments in each of the five following fiscal years to 2005 and thereafter, are as follows:

Year *In millions*	Operating	Capital
2000	$169	$ 170
2001	154	179
2002	130	132
2003	102	132
2004	84	107
2005 and thereafter	254	762
	$893	1,482
Less: imputed interest on capital leases at rates ranging from approximately 3¼% to 14½%		577
Present value of minimum lease payments at current rate included in debt		$ 905

B. Other commitments

As at December 31, 1999, the Company had commitments to acquire locomotives and freight cars at an aggregate cost of $111 million, rail at a cost of $38 million, railroad ties at a cost of $39 million, automotive equipment at a cost of $18 million, and intermodal equipment at a cost of $1 million. Further, as at December 31, 1999, the Company had entered into car repair commitments totaling $18 million for the years 2000 to 2002 and into agreements with fuel suppliers to purchase approximately 47% of its anticipated 2000 volume at market prices prevailing on the date of the purchase.

C. Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions for such items which it considers to be adequate. While the final outcome with respect to actions outstanding or pending as at December 31, 1999 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position.

D. Environmental matters

The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

(i) the lack of specific technical information available with respect to many sites;

(ii) the absence of any government authority, third-party orders, or claims with respect to particular sites;

(iii) the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites;

(iv) the ability to recover costs from any third parties with respect to particular sites; and

therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that material liabilities

21 Major commitments and contingencies *(continued)*

or costs related to environmental matters will not be incurred in the future or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs. Although the effect on operating results and liquidity cannot be reasonably estimated, management believes, based on current information, that environmental matters will not have a material adverse effect on the Company's financial condition or competitive position. Costs related to any future remediation will be accrued in the year in which they become known.

As at December 31, 1999, the Company had aggregate accruals for environmental costs of $96 million ($65 million as at December 31, 1998). During the year, $16 million was applied to the provision for environmental costs compared to $11 million in 1998 and $11 million in 1997. In addition, related environmental capital expenditures were $11 million in 1999, $13 million in 1998 and $13 million in 1997. The Company also expects to incur capital expenditures relating to environmental matters of approximately $15 million in 2000, $13 million in 2001 and $10 million in 2002. The Company has not included any reduction in costs for anticipated recovery from insurance.

22 Financial instruments

A. Risk management

The Company has limited involvement with derivative financial instruments in the management of its fuel, interest rate and foreign currency exposures, and does not use them for trading purposes.

(i) Credit risk

The Company is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments but does not expect such non-performance as counterparties are of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained; however, the credit standing of counterparties is regularly monitored. The total risk associated with the Company's counterparties was immaterial at December 31, 1999. The Company believes there are no significant concentrations of credit risk.

(ii) Interest rates

The Company uses derivative financial instruments from time to time to hedge the exposure to interest rate fluctuations on anticipated transactions.

In 1998, the Company hedged a portion of its exposure to interest rate risk on the issuance of U.S.$925 million of long-term debt associated with the IC acquisition by means of forward contracts and options. The hedging cost has been deferred and is being amortized over the term of the respective debt issues.

(iii) Foreign currency

Although the Company conducts a majority of its business and receives revenues primarily in Canadian dollars, a significant portion of its business is conducted and revenues are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

The Company has entered into a forward exchange contract (currency swap) with respect to its 15-year Swiss franc bonds. This forward exchange contract acts as a hedge to effectively fix the amount of Canadian dollars required over the term of the debt to make all necessary payments in the foreign currency of issue. The Company has not incurred any significant net gains or losses in respect of this transaction. Losses due to non-performance by the counterparty to its foreign currency swap are not anticipated.

In 1998, the Company designated all of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in IC. As a result, unrealized foreign exchange gains and losses, from the date of designation, on the translation of the Company's U.S. dollar denominated debt are included in Accumulated other comprehensive income, along with the unrealized foreign exchange gains and losses on the translation of the Company's net investment in IC, which forms part of Shareholders' equity.

(iv) Fuel

The Company has a hedging program in place to mitigate the effects of fuel price changes on its operating margins and overall profitability. The Company has entered into various swaps and collar agreements to mitigate the risk of fuel price volatility. The Company also monitors its hedging positions and the credit ratings of its counterparties and does not anticipate losses due to counterparty non-performance. At December 31, 1999, the Company had hedged approximately 27% of the estimated 2000 fuel consumption. Unrecognized gains (losses) from the Company's fuel hedging activities amounted to approximately $9 million and $(8) million at December 31, 1999 and 1998, respectively.

B. Fair value of financial instruments

Generally accepted accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following indicated captions:

(i) Cash and cash equivalents, Accounts receivable, Accounts payable and accrued charges, and Other current liabilities:

The carrying amounts approximate fair value because of the short maturity of these instruments.

(ii) Other assets and deferred charges:
Investments: The Company has various debt and equity investments for which the carrying value approximates the fair value, with the exception of an investment for which the fair value was estimated based on CN's proportionate share of its accumulated earnings.

(iii) Long-term debt:
The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity.

(iv) Convertible preferred securities:
The fair value of the Company's convertible preferred securities is estimated based on the quoted market price.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as at December 31, 1999 and 1998 for which the carrying values are not disclosed on the Consolidated Balance Sheet or for which the carrying amounts are different from the fair values:

In millions	**December 31, 1999**		December 31, 1998	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Investments	**$ 22**	**$ 42**	$ 50	$ 50
Financial liabilities				
Long-term debt (including current portion)	**$4,219**	**$4,092**	$4,128	$4,226
Convertible preferred securities	**$ 334**	**$ 281**	$ –	$ –

23 Other comprehensive income (loss)

A. Components of Other comprehensive income (loss) and the related tax effects are as follows:

In millions	**Year ended December 31, 1999**			Year ended December 31, 1998		
	Before tax amount	**Income tax (expense) recovery**	**Net of tax amount**	Before tax amount	Income tax (expense) recovery	Net of tax amount
Unrealized foreign exchange gain (loss) on translation of U.S. dollar denominated long-term debt designated as a hedge of the IC investment	**$ 180**	**$(69)**	**$ 111**	$(246)	$ 102	$(144)
Unrealized foreign exchange gain (loss) on translation of the net investment in IC	**(202)**	**78**	**(124)**	259	(108)	151
Minimum pension liability adjustment	**2**	**(1)**	**1**	(2)	1	(1)
Other comprehensive income (loss)	**$ (20)**	**$ 8**	**$ (12)**	$ 11	$ (5)	$ 6

B. Changes in the balances of each classification within Accumulated other comprehensive income (loss) are as follows:

In millions	Foreign exchange U.S.$ debt	Foreign exchange IC investment	Minimum pension liability adjustment	Accumulated other comprehensive income (loss)
Balance at January 1, 1998	$ –	$ –	$ –	$ –
Period change	(144)	151	(1)	6
Balance at December 31, 1998	(144)	151	(1)	6
Current period change	111	(124)	1	(12)
Balance at December 31, 1999	**$ (33)**	**$ 27**	**$ –**	**$ (6)**

24 Illinois Central Railroad Company consolidated financial information

The Company has fully and unconditionally guaranteed certain publicly issued debt of Illinois Central Railroad Company (ICRR). Consequently, the Company has not presented separate financial statements and other disclosures, other than those presented below, because management has determined that such information is not material to the holders of ICRR debt.

Summary financial information for ICRR, on its historical cost basis, for the years ended December 31, 1999, 1998 and 1997, and as at December 31, 1999 and 1998, is presented below.

Illinois Central Railroad Company
Condensed Consolidated Statement of Income

In millions of U.S.$ *Year ended December 31,*	1999	1998	1997
Revenues	$670	$651	$623
Operating expenses	529	444	395
Operating income	141	207	228
Other income	6	13	6
Interest expense	(48)	(28)	(28)
Income before income taxes	99	192	206
Income tax expense	(37)	(71)	(70)
Net income	$ 62	$121	$136

Operating expenses for the years ended December 31, 1999 and 1998 include a special charge for workforce reductions and compensation payments related to the merger of U.S.$46 million and U.S.$28 million, respectively.

The year ended December 31, 1999 also includes a charge of U.S. $25 million primarily related to litigation settlements and casualty claims.

Illinois Central Railroad Company
Condensed Consolidated Balance Sheet

In millions of U.S.$ *December 31,*	1999	1998
Assets		
Current assets	$ 220	$ 218
Non-current assets	1,735	1,667
Total assets	$1,955	$1,885
Liabilities and stockholders' equity		
Current liabilities	$ 282	$ 271
Payable to affiliate	578	–
Long-term debt	512	544
Deferred income taxes	337	334
Other liabilities and reserves	171	109
Stockholders' equity	75	627
Total liabilities and stockholders' equity	$1,955	$1,885

25 Comparative figures

Certain figures, previously reported for 1998 and 1997, have been reclassified to conform with the basis of presentation adopted in the current year.

Contents

Canadian National Railway Company

The CN Pension Plan and the CN 1935 Pension Plan

Notes to Consolidated Financial Statements

Management's discussion and analysis relates to the financial condition and results of operations of Canadian National Railway Company (CN) together with its wholly owned subsidiaries, including Grand Trunk Corporation and Illinois Central Corporation (IC). As used herein, the word "Company" means, as the context requires, CN and its subsidiaries. CN's common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of Canadian generally accepted accounting principles (Canadian GAAP).

Financial results

1999 compared to 1998

Where applicable and for comparative purposes only, management's discussion and analysis of the financial results when comparing 1999 versus 1998 has also been provided using 1998 pro forma figures as presented in Note 4 to the 1999 consolidated financial statements. As used herein, 1998 pro forma refers to the consolidation of the results of operations of IC, assuming the acquisition and control of IC occurred on January 1, 1998.

The Company recorded consolidated net income of $602 million ($3.02 per share) for the year ended December 31, 1999 compared to $109 million ($0.60 per share), or $132 million ($0.69 per share) on a pro forma basis, for the year ended December 31, 1998.

In 1998, the Company recorded a special charge of $590 million, $345 million after tax ($1.88 per share, $1.80 per share pro forma) for workforce reductions. Excluding the effect of this item, consolidated net income was $454 million ($2.48 per share), or $477 million ($2.49 per share) on a pro forma basis, for the year ended December 31, 1998.

Operating income was $1,233 million for 1999 compared to $247 million ($480 million pro forma) in 1998. When compared to 1998 operating income of $837 million ($1,070 million pro forma), excluding the special charge, 1999 operating income increased by $396 million, or 47% ($163 million, or 15% pro forma). The operating ratio in 1999 was 76.6% compared to 79.6% (79.3% pro forma) in 1998, excluding the special charge.

Revenues

Revenues for the year ended December 31, 1999 totaled $5,261 million as compared to $4,101 million in 1998, an increase of $1,160 million, or 28%, mainly attributable to the consolidation of IC's operating results in 1999.

When compared to 1998 pro forma revenues of $5,160 million, annual revenues increased by $101 million, or 2%. The increase was mainly due to higher revenues in automotive, petroleum and chemicals, and intermodal, partially offset by coal. Revenue ton miles increased by 4% while freight revenue per revenue ton mile decreased by 2%.

The 1998 data presented in the following table is on a pro forma basis. For comparative purposes only, variances relating to the individual business units are discussed and analyzed solely using the 1998 pro forma figures.

Year ended December 31,	1999	1998	1999	1998	1999	1998
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	$ 878	$ 851	24,194	22,100	3.63	3.85
Metals and minerals	398	408	9,271	9,970	4.29	4.09
Forest products	995	979	27,500	26,220	3.62	3.73
Coal	402	474	18,645	19,907	2.16	2.38
Grain and fertilizers	1,066	1,068	38,681	37,904	2.76	2.82
Intermodal	810	790	22,589	20,353	3.59	3.88
Automotive	483	382	2,733	2,215	17.67	17.25
Other items	229	208	–	–	–	–
Total	$5,261	$5,160	143,613	138,669	3.50	3.57

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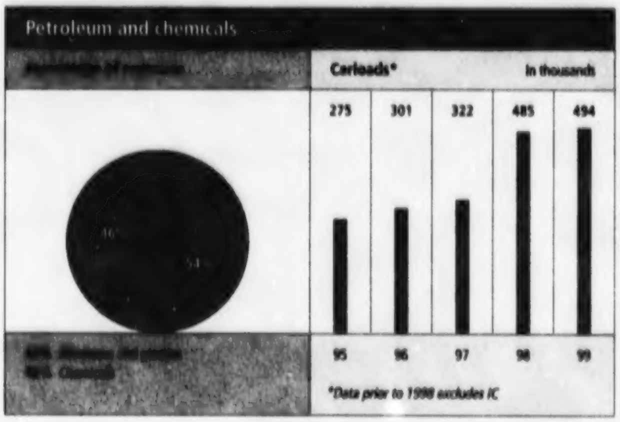
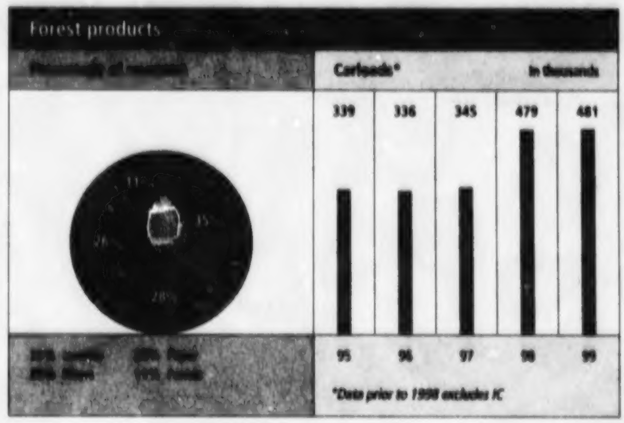
Petroleum and chemicals – Revenues and volumes increased by 3% and 9%, respectively

Revenues for the year ended December 31, 1999 increased by $27 million over 1998. Growth stemmed from favorable market conditions for sulfur, plastics and plastics derivatives, particularly in Canada, and strong demand for liquefied petroleum gas. The improvement was partially offset by increased short-line payments related to the Company's network rationalization program. An increased average length of haul contributed to a 6% decrease in revenue per revenue ton mile.



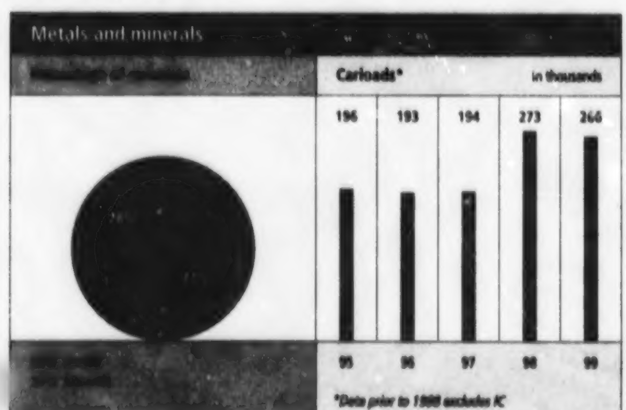
Forest products – Revenues and volumes increased by 2% and 5%, respectively

Revenues for 1999 increased by $16 million over 1998. The positive 1999 performance reflected growth in lumber and panels traffic in line with Canadian and U.S. construction markets, gradual recovery in international woodpulp markets, as well as a strike at a major paper producing customer in 1998. Increased short-line payments related to the Company's network rationalization program partially offset the improvements in the current year. A shift to longer haul traffic contributed to the decrease in revenue per revenue ton mile of 3%.



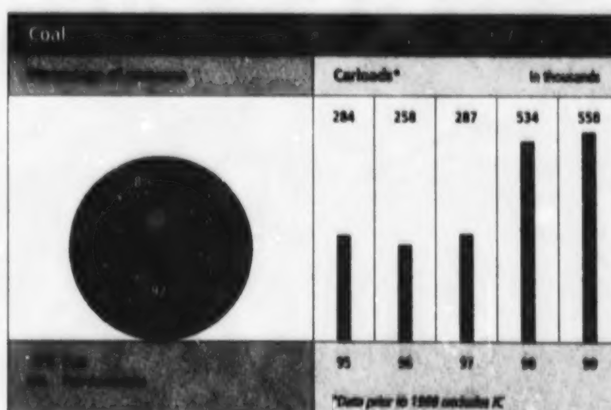
Metals and minerals – Revenues and volumes decreased by 2% and 7%, respectively

Revenues for the year ended December 31, 1999 decreased by $10 million when compared to 1998. The decrease was driven by weak steel shipments resulting from strong offshore steel imports in the U.S. and Canada in the earlier part of the year. This was partially offset by the growth in construction materials traffic, in line with stronger construction activity, and stronger non-ferrous metals traffic in Canada. An increase in revenue per revenue ton mile of 5% is related to a decrease in the average length of haul.



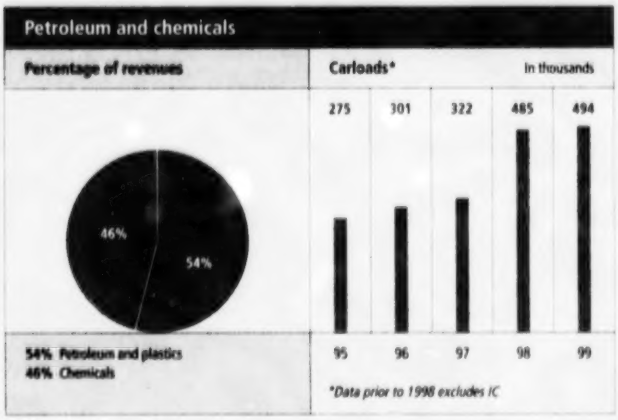
Coal – Revenues and volumes decreased by 15% and 6%, respectively

Revenues for the year ended December 31, 1999 decreased by $72 million from 1998. The decrease in 1999 was due to weak Canadian coal exports as a result of reduced Asian steel production and contract coal price reductions. The revenue per revenue ton mile decrease of 9% was mainly attributable to reduced freight rates tied to coal prices.



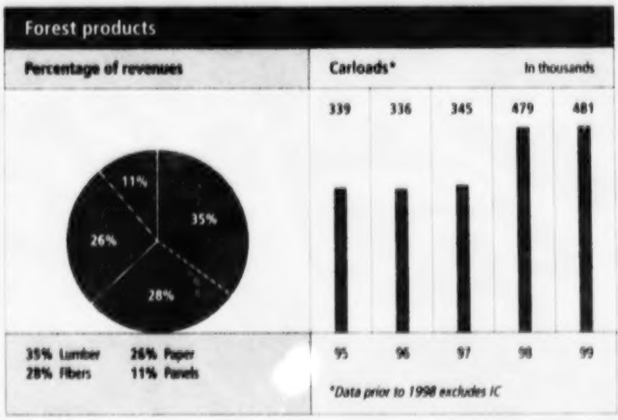
Petroleum and chemicals – Revenues and volumes increased by 3% and 9%, respectively

Revenues for the year ended December 31, 1999 increased by $27 million over 1998. Growth stemmed from favorable market conditions for sulfur, plastics and plastics derivatives, particularly in Canada, and strong demand for liquefied petroleum gas. The improvement was partially offset by increased short-line payments related to the Company's network rationalization program. An increased average length of haul contributed to a 6% decrease in revenue per revenue ton mile.



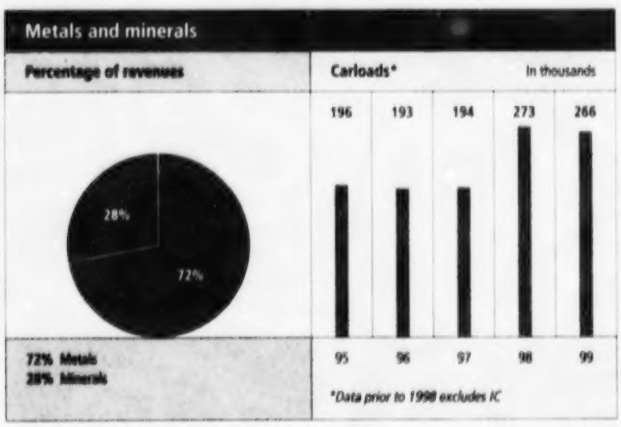
Forest products – Revenues and volumes increased by 2% and 5%, respectively

Revenues for 1999 increased by $16 million over 1998. The positive 1999 performance reflected growth in lumber and panels traffic in line with Canadian and U.S. construction markets, gradual recovery in international woodpulp markets, as well as a strike at a major paper producing customer in 1998. Increased short-line payments related to the Company's network rationalization program partially offset the improvements in the current year. A shift to longer haul traffic contributed to the decrease in revenue per revenue ton mile of 3%.



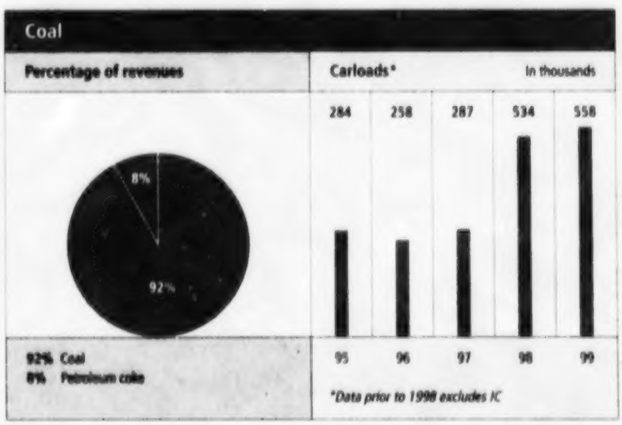
Metals and minerals – Revenues and volumes decreased by 2% and 7%, respectively

Revenues for the year ended December 31, 1999 decreased by $10 million when compared to 1998. The decrease was driven by weak steel shipments resulting from strong offshore steel imports in the U.S. and Canada in the earlier part of the year. This was partially offset by the growth in construction materials traffic, in line with stronger construction activity, and stronger non-ferrous metals traffic in Canada. An increase in revenue per revenue ton mile of 5% is related to a decrease in the average length of haul.



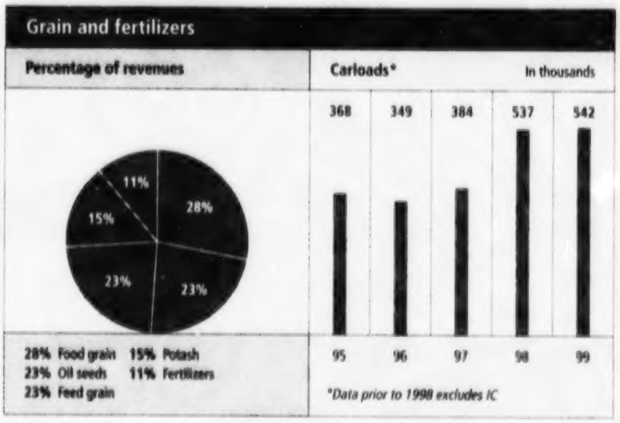
Coal – Revenues and volumes decreased by 15% and 6%, respectively

Revenues for the year ended December 31, 1999 decreased by $72 million from 1998. The decrease in 1999 was due to weak Canadian coal exports as a result of reduced Asian steel production and contract coal price reductions. The revenue per revenue ton mile decrease of 9% was mainly attributable to reduced freight rates tied to coal prices.



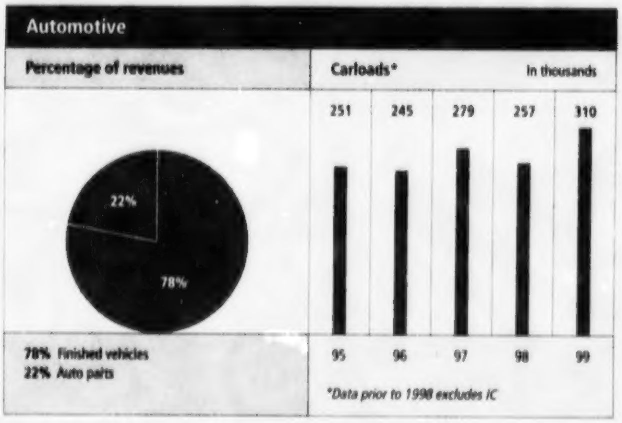
Grain and fertilizers – Revenues were flat and volumes increased by 2%

Revenues remained essentially flat during 1999. The $2 million decrease reflects the reduction in canola oil and seed shipments consistent with market conditions and lower Canadian wheat exports in the earlier part of the year, as well as increased short-line payments related to the Company's network rationalization program. These were offset by the increase in U.S. exports of corn through the Gulf of Mexico and of potash shipments tied to significant Canadian potash export growth in the fourth quarter of 1999. The decline in revenue per revenue ton mile of 2% mainly results from the decrease in regulated Canadian grain rates of 1.2% in August 1998.



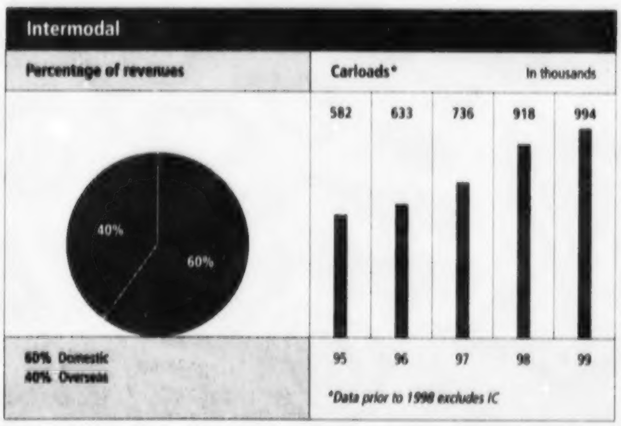
Automotive – Revenues and volumes increased by 26% and 23%, respectively

Revenues for the year ended December 31, 1999 increased $101 million over 1998. The increase is consistent with strong vehicle sales in both Canada and the United States and double-digit growth in Canadian motor vehicle exports, and reflects the impact of a strike at a major automotive manufacturer in 1998. The revenue per revenue ton mile increase of 2% is mainly due to a shift in traffic patterns and to the weakness of the Canadian dollar in the earlier part of 1999.



Intermodal – Revenues and volumes increased by 3% and 11%, respectively

Revenues in 1999 increased by $20 million when compared to the year ended December 31, 1998. The increase was mainly due to strength in the overseas segment in line with growing container trade and new traffic obtained through the Port of Vancouver. The domestic segment also contributed to this growth driven by the impact of the strong U.S. economy, partially offset by weakness in the Canadian domestic market to the west. Strong competition and a shift in traffic patterns for both the overseas and domestic segments resulted in a revenue per revenue ton mile decrease of 7%.

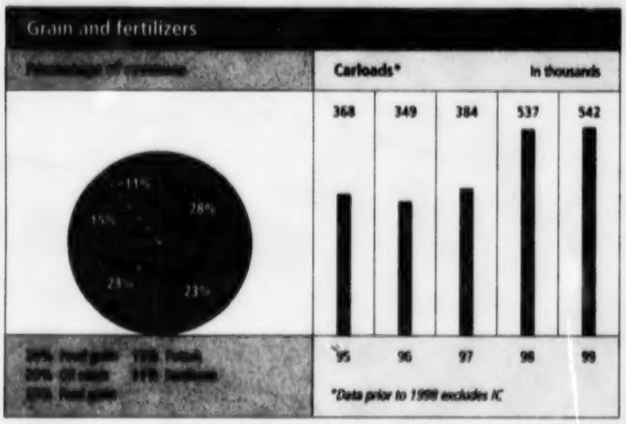


Other items – Revenues increased by 10%

Revenues for the year ended December 31, 1999 increased by $21 million over 1998. The majority of the increase was attributable to the final branch line subsidy payment of $21 million related to the 1996 claim for unprofitable lines.

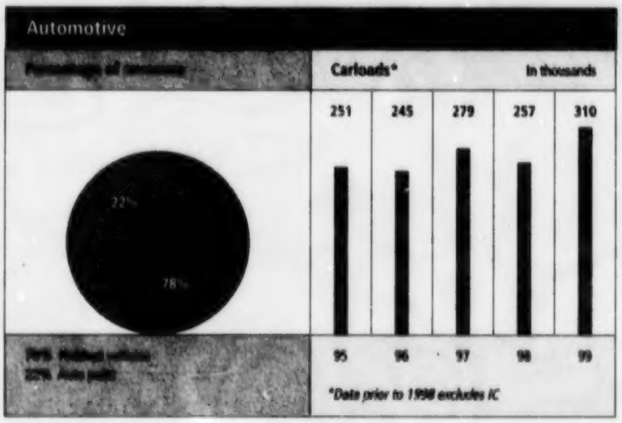
Grain and fertilizers – Revenues were flat and volumes increased by 2%

Revenues remained essentially flat during 1999. The $2 million decrease reflects the reduction in canola oil and seed shipments consistent with market conditions and lower Canadian wheat exports in the earlier part of the year, as well as increased short-line payments related to the Company's network rationalization program. These were offset by the increase in U.S. exports of corn through the Gulf of Mexico and of potash shipments tied to significant Canadian potash export growth in the fourth quarter of 1999. The decline in revenue per revenue ton mile of 2% mainly results from the decrease in regulated Canadian grain rates of 1.2% in August 1998.



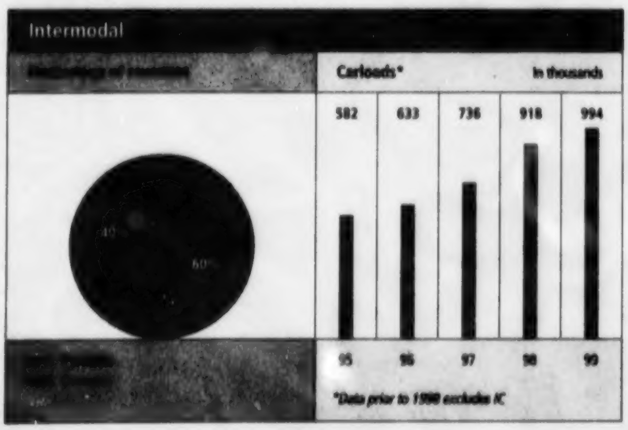
Automotive – Revenues and volumes increased by 26% and 23%, respectively

Revenues for the year ended December 31, 1999 increased $101 million over 1998. The increase is consistent with strong vehicle sales in both Canada and the United States and double-digit growth in Canadian motor vehicle exports, and reflects the impact of a strike at a major automotive manufacturer in 1998. The revenue per revenue ton mile increase of 2% is mainly due to a shift in traffic patterns and to the weakness of the Canadian dollar in the earlier part of 1999.



Intermodal – Revenues and volumes increased by 3% and 11%, respectively

Revenues in 1999 increased by $20 million when compared to the year ended December 31, 1998. The increase was mainly due to strength in the overseas segment in line with growing container trade and new traffic obtained through the Port of Vancouver. The domestic segment also contributed to this growth driven by the impact of the strong U.S. economy, partially offset by weakness in the Canadian domestic market to the west. Strong competition and a shift in traffic patterns for both the overseas and domestic segments resulted in a revenue per revenue ton mile decrease of 7%.



Other items – Revenues increased by 10%

Revenues for the year ended December 31, 1999 increased by $21 million over 1998. The majority of the increase was attributable to the final branch line subsidy payment of $21 million related to the 1996 claim for unprofitable lines.

Operating expenses

Total operating expenses amounted to $4,028 million in 1999 compared to $3,854 million in 1998. When compared to 1998 operating expenses of $3,264 million, excluding the special charge for workforce reductions, 1999 operating expenses increased by $764 million, or 23%, predominantly due to the consolidation of IC's operating expenses in 1999.

Pro forma operating expenses for the year ended December 31, 1998 were $4,680 million. When compared to 1998 pro forma operating expenses of $4,090 million, excluding the special charge, 1999 operating expenses decreased by $62 million, or 2%. The decrease was mainly due to lower expenses in labor and fringe benefits, equipment rents and operating taxes, partially offset by increased purchased services costs.

The 1998 operating expense data presented in the following table is on a pro forma basis. For comparative purposes only, variances relating to the individual operating expense categories are discussed and analyzed solely using the 1998 pro forma figures.

Dollars in millions — *Year ended December 31,*	1999		1998	
	Amount	% of revenue	Amount	% of revenue
Labor and fringe benefits	$1,711	32.5%	$1,790	34.7%
Purchased services	591	11.2%	531	10.3%
Depreciation and amortization	400	7.6%	391	7.6%
Equipment rents	335	6.4%	363	7.0%
Fuel	309	5.9%	318	6.2%
Material	260	5.0%	267	5.2%
Operating taxes	173	3.3%	201	3.9%
Casualty and other	249	4.7%	229	4.4%
	4,028	76.6%	4,090	79.3%
Special charge	-		590	
Total operating expenses	$4,028		$4,680	

Labor and fringe benefits: Labor and fringe benefit expenses in 1999 decreased by $79 million, or 4%, when compared to 1998. The majority of the decrease was attributable to the Company's reduced workforce and higher workers' compensation costs in 1998, partially offset by increased 1999 salary and benefit costs.

Purchased services: Costs of purchased services increased by $60 million, or 11%, for 1999 when compared to 1998. The increase was mainly due to higher consulting and integration costs, outsourcing fees, as well as $20 million incurred in the fourth quarter of 1999 for costs related to the proposed combination of CN and Burlington Northern Santa Fe Corporation (BNSF).

Depreciation and amortization: Depreciation and amortization expense in 1999 increased by $9 million, or 2%, when compared to 1998, mainly due to the impact of capital additions.

Equipment rents: These expenses decreased by $28 million, or 8%, in the current year due to a higher level of car hire income in 1999 versus 1998 and a lower level of short-term leases, mainly as a result of improved asset utilization from the new service plan.

Fuel: An improvement in fuel efficiency as well as a lower average fuel price in 1999 (including the effects of the Company's fuel hedging program) produced a decrease in fuel expense of $9 million, or 3%, in 1999.

Material: Material costs decreased by $7 million, or 3%, in 1999 from the 1998 level. The decrease in 1999 was mainly as a result of lower running repairs due to a fewer number of locomotives and freight cars in service.

Operating taxes: Operating taxes decreased by $28 million, or 14%, in 1999, mainly as a result of a decrease in the Alberta statutory diesel fuel tax rate, a refund of prior years' taxes and lower municipal property tax rates in certain jurisdictions.

Casualty and other: These expenses increased by $20 million, or 9%, during 1999. The increase was largely driven by the increase in the provision for environmental costs in 1999 as well as the one-time recovery of costs from a third party in 1998. The increase was partially offset by lower costs related to legal claims in 1999.

Other

Interest expense: Interest expense for the year ended December 31, 1999 was $308 million compared to $244 million in 1998. The 1999 increase of $64 million was largely attributable to the consolidation of IC in 1999. Compared to 1998 on a pro forma basis, interest expense decreased by $25 million, mainly as a result of debt repayments from the proceeds of the common shares and convertible preferred securities issuances at the end of June 1999.

Equity in earnings of Illinois Central Corporation: The Company consolidated the results of IC in 1999. In 1998, the Company applied the equity method of accounting for its investment in IC. Equity in the earnings of IC for the year ended December 31, 1998 was $86 million. Pro forma figures have been presented in Note 4 to the 1999 consolidated financial statements as if the Company had consolidated the results of IC on January 1, 1998.

Other income: In 1999, the Company recorded other income of $46 million compared to other income of $26 million ($32 million pro forma) in 1998. The increase in 1999 was mainly due to first quarter right-of-way revenues of $20 million.

Income tax expense: The Company recorded income tax expense for the current year of $369 million compared to income tax expense of $6 million ($47 million pro forma) in 1998. The effective income tax rate was 38.0% for the current year and 40.6% (38.0% pro forma) in 1998, excluding the equity in earnings of IC as well as the effect of the special charge in 1998.

1998 compared to 1997

Management's discussion and analysis of the financial results of 1998 versus 1997 has been provided using 1998 and 1997 actual and as-reported figures, and not using pro forma financial information, as if the Company had acquired control of IC on January 1, 1997.

The Company recorded consolidated net income for the year ended December 31, 1998 of $109 million ($0.60 per share) compared to $403 million ($2.37 per share) in 1997.

The years ended December 31, 1998 and 1997 include items impacting the comparability of the results of operations. In 1998, the Company recorded a special charge of $590 million, $345 million after tax ($1.88 per share) for workforce reductions, and in 1997, the Company had a discontinued operations loss of $18 million, net of applicable income taxes ($0.11 per share).

Excluding the effects of items discussed above of $345 million ($1.88 per share) for 1998 and $18 million ($0.11 per share) for 1997, consolidated net income was $454 million ($2.48 per share) for the year ended December 31, 1998 compared to $421 million ($2.48 per share) for the year ended December 31, 1997.

Operating income was $247 million for 1998 compared to $807 million in 1997. Excluding the special charge, operating income was $837 million for the year ended December 31, 1998, an increase of $30 million, or 4%, over 1997. The operating ratio, excluding the special charge, improved from 81.3% in 1997 to 79.6% in 1998.

Revenues

Revenues for the year ended December 31, 1998 totaled $4,101 million as compared to $4,313 million in 1997, a decrease of $212 million, or 5%. The decline was mainly attributable to lower revenues in grain and fertilizers, and coal. Revenue ton miles decreased by 6% while freight revenue per revenue ton mile remained relatively flat when comparing 1998 over 1997.

Year ended December 31,	1998	1997	1998	1997	1998	1997
	Revenues		Revenue ton miles		Freight revenue per revenue ton mile	
	In millions				*In cents*	
Petroleum and chemicals	$ 578	$ 560	17,814	18,120	3.24	3.09
Metals and minerals	319	310	7,905	7,815	4.04	3.97
Forest products	817	809	22,992	22,810	3.55	3.55
Coal	342	401	14,538	14,845	2.35	2.70
Grain and fertilizers	798	941	28,426	34,192	2.81	2.75
Intermodal	712	716	19,076	18,657	3.73	3.84
Automotive	377	423	2,178	3,095	17.31	13.67
Other items	158	153	–	–	–	–
Total	$4,101	$4,313	112,929	119,534	3.49	3.48

Petroleum and chemicals – Revenues increased by 3% and volumes decreased by 2%

Revenues for the year ended December 31, 1998 increased by $18 million over 1997. The 1998 growth was largely attributable to strength in petroleum products traffic, particularly plastics and fuel oils. These gains were partially offset by softness in the chemicals markets, continued excess supply in the international sulfur market, and the impact of the Company's network rationalization program. Revenue per revenue ton mile increased by 5% due to a shift in traffic patterns, combined with a weaker Canadian dollar as compared to 1997.

Metals and minerals – Revenues increased by 3% and volumes increased by 1%

Revenues for the year ended December 31, 1998 increased by $9 million when compared to 1997. The 1998 growth stemmed from increased metals shipments generated by pipeline projects in western Canada, as well as an improvement in aluminum traffic as a result of strong market conditions in the United States. Revenue per revenue ton mile increased 2% this year due to a decrease in length of haul.

Forest products – Revenues increased by 1% and volumes increased by 1%

Revenues for 1998 increased by $8 million over 1997. The 1998 growth was driven by increased lumber and panels traffic due to continued strength in U.S. housing activity and market share gains. Partially offsetting these increases were a six-month strike at a major North American paper producer and the impact of the Company's network rationalization program. Revenue per revenue ton mile remained flat over 1997.

Coal – Revenues decreased by 15% and volumes decreased by 2%

Revenues for the year ended December 31, 1998 decreased by $59 million from 1997. The 1998 decrease was mainly attributable to lower coal export traffic as a result of weak international coal markets, particularly from reductions in Asian steel production. The revenue per revenue ton mile decrease of 13% was mainly attributable to reduced freight rates tied to coal prices.

Grain and fertilizers – Revenues decreased by 15% and volumes decreased by 17%

Revenues for the year ended December 31, 1998 decreased by $143 million from the 1997 level. The 1998 decline reflected a very strong comparative year in 1997 due to the 1996/1997 bumper crop and softness in export markets for wheat and feed grains. Canola oil and seed shipments improved throughout the year, consistent with overall market strength. The revenue per revenue ton mile improvement of 2% was mainly due to the regulated rate increase of 2% on export grain effective August 1997, as well as a decline in longer haul export traffic.

Intermodal – Revenues decreased by 1% and volumes increased by 2%

Revenues in 1998 decreased by $4 million when compared to the year ended December 31, 1997. A decline in 1998 in the domestic segment was due to weaker shipments to western Canada, as well as the adverse effect of customers' concerns regarding a potential strike at the Company during labor negotiations, which were concluded in the latter part of the third quarter. Partially offsetting domestic weakness was strength in overseas traffic, particularly imports through the west coast. The decrease in revenue per revenue ton mile of 3% was largely due to a shift to longer haul traffic, particularly in the overseas market.

Automotive – Revenues decreased by 11% and volumes decreased by 30%

Revenues for the year ended December 31, 1998 decreased by $46 million from 1997. The 1998 decline was due primarily to the impact of a June and July strike at a major U.S. automobile manufacturer and reduced production at a major Company-served auto plant due to retooling. The increase in revenue per revenue ton mile of 27% was driven by changes in customer distribution patterns, a corporate decision to shed unprofitable business, and weakness in the Canadian dollar.

Operating expenses

Total operating expenses amounted to $3,854 million in 1998 compared to $3,506 million in 1997. Excluding the special charge for workforce reductions, operating expenses were $3,264 million for the year ended December 31, 1998, a decrease of $242 million, or 7%, from 1997. The decrease was mainly due to lower expenses in equipment rents, fuel and material.

Dollars in millions — *Year ended December 31,*	1998		1997	
	Amount	% of revenue	Amount	% of revenue
Labor and fringe benefits	$1,457	35.5%	$1,460	33.9%
Purchased services	466	11.4%	471	10.9%
Depreciation and amortization	210	5.1%	200	4.6%
Equipment rents	300	7.3%	339	7.9%
Fuel	269	6.6%	358	8.3%
Material	224	5.5%	308	7.1%
Operating taxes	172	4.2%	185	4.3%
Casualty and other	166	4.0%	185	4.3%
	3,264	79.6%	3,506	81.3%
Special charge	590		–	
Total operating expenses	$3,854		$3,506	

Labor and fringe benefits: Labor and fringe benefits expenses in 1998 decreased by $3 million when compared to 1997. A decrease in expenses caused by lower volumes and the impact of the Company's downsizing efforts were offset by wage increases and higher pension expense, mainly attributable to benefits related to the new collective agreements, as well as an adjustment to workers' compensation expense.

Purchased services: Costs of purchased services decreased by $5 million, or 1%, for 1998 when compared to 1997. The decrease was mainly due to lower professional fees, cost reductions on a locomotive maintenance contract, and lower vehicle leasing costs and deadheading costs. This was partially offset by decreased cost recoveries related to joint facility projects and increased costs related to detouring traffic as a result of the 1998 ice storm in eastern Canada.

Depreciation and amortization: Depreciation and amortization expense in 1998 increased by $10 million, or 5%, in comparison to 1997 due to increased depreciation expense related to the 1998 capital additions, as well as the acquisition of new locomotives in the latter part of 1997.

Equipment rents: These expenses decreased by $39 million, or 12%, in 1998, largely as a result of an increase in locomotive short-term lease income and decreased car hire expenses on covered hopper grain cars, decreased volumes and improved asset utilization.

Fuel: The decline in the average price of fuel of 12% (including the effects of the Company's fuel hedging program), as well as reduced volume levels and a 10% improvement in fuel efficiency, largely produced a decrease in fuel expense for 1998 of $89 million, or 25%, from 1997.

Material: Material costs decreased by $84 million, or 27%, in 1998 from the 1997 level. The decrease in 1998 was mainly as a result of the Company's network rationalization initiatives and the temporary closure of certain repair facilities.

Operating taxes: Operating taxes decreased by $13 million, or 7%, in 1998, mainly as a result of a decrease in diesel fuel taxes and municipal property taxes.

Casualty and other: These expenses decreased by $19 million, or 10%, during 1998. The decrease was mainly as a result of an improved safety record, lower costs of train accidents and legal claims related to injuries to persons, the capitalization of certain costs related to information technology system development projects, decreased utility costs, higher recoveries from third parties, and the write-off of certain accounts receivable in 1997.

Special charge: The Company recorded a $590 million pre-tax charge ($345 million after tax) to operations in the third quarter of 1998 for workforce reduction plans aimed at reducing future operating costs and increasing productivity. The charge includes severance and other payments to be made for approximately 3,000 reductions, 1,400 of which occurred in 1998, 1,300 in 1999, with the remainder to be completed in 2000. Labor productivity and operating efficiency initiatives span the entire organization, with reductions in the administration, transportation, engineering and equipment functions.

Other

Interest expense: Interest expense for the year ended December 31, 1998 was $244 million compared to $118 million in 1997, an increase of $126 million. The increase reflects the impact of the financing related to the acquisition of IC, as well as the financing related to the locomotive upgrade program and other capital leases, which was partially offset by repurchases of some of the Company's outstanding long-term debt in the latter part of 1997.

Equity in earnings of Illinois Central Corporation: The Company applied the equity method of accounting for its investment in IC. Accordingly, equity in the earnings of IC of $86 million was recorded in 1998.

Other income: Other income for the year ended December 31, 1998 was $26 million compared to $57 million in 1997, a decrease of $31 million. The decrease was mainly due to the second-quarter 1997 gain on sale of the Company's interest in a joint venture of $21 million and the impact of foreign exchange in 1998 versus 1997. The Company recorded a foreign exchange loss of $9 million for 1998 compared to a gain of $4 million in 1997.

Effective April 1, 1998, the Company designated U.S.$1.8 billion of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in IC. Effective June 4, 1998, and corresponding with the completion of the second step of the IC acquisition, the Company increased that designated amount to include all of its U.S. dollar denominated debt. The result is that unrealized foreign exchange gains and losses, from the date of designation, on the translation of the Company's U.S. dollar denominated debt are included in Currency translation, along with the unrealized foreign gains and losses on the translation of the Company's net investment in IC, which forms part of Shareholders' equity.

Prior to April 1, 1998, and in comparative periods, the Company had designated certain future U.S. dollar revenue streams as a hedge against the repayment of most of its long-term debt denominated in U.S. dollars and thus deferred reflecting the related unrealized foreign currency translation gains and losses in net income until the earlier of the debt repayment or such time as the hedge ceased to be effective.

Income tax expense from continuing operations: Income tax expense for the year ended December 31, 1998 was $6 million compared to $325 million for the year ended December 31, 1997. The effective income tax rate for 1998 was affected by the Company's equity in earnings of IC. Excluding the equity in earnings of IC and the special charge, the effective income tax rate was 40.6% in 1998. The effective income tax rate in 1997 was 43.6%.

Liquidity and capital resources

Operating activities: Cash provided from operations was $961 million for the year ended December 31, 1999 compared to $953 million for 1998. Cash from operations includes the effect of the reduction of the sale of accounts receivable of $14 million in 1999 and includes the proceeds from the sale of accounts receivable of $219 million in 1998. Net income, excluding non-cash items, generated cash of $1,331 million in 1999, up from $813 million in 1998. A significant portion of the cash generated in 1999 and 1998 was consumed by payments with respect to workforce reductions of $219 million in 1999 and $187 million in 1998. As a result of the 1999 payments, the workforce reduction accruals have been reduced to $699 million as at December 31, 1999. Cash payments with respect to workforce reductions are expected to be approximately $182 million in 2000.

Investing activities: Cash used in investing activities in 1999 amounted to $557 million compared to $404 million in 1998, excluding the investment in IC. Capital expenditures amounted to $629 million for the year ended December 31, 1999, an increase of $135 million over 1998. Capital expenditures included roadway renewal, rolling stock, and other capacity and productivity improvements.

The Company anticipates that capital expenditures for 2000 will be approximately $570 million. This will include funds required for ongoing renewal of the basic plant and other acquisitions and investments required to improve the Company's operating efficiency and customer service.

As at December 31, 1999, the Company had commitments to acquire locomotives and freight cars at an aggregate cost of $111 million, rail at a cost of $38 million, railroad ties at a cost of $39 million, automotive equipment at a cost of $18 million, and intermodal equipment at a cost of $1 million.

Dividends: During 1999, the Company paid dividends totaling $127 million. $118 million was paid to its common shareholders at the rate of $0.30 per share per quarter for the first three quarters and $0.15 per share in the fourth quarter, following the two-for-one stock split. Also, $9 million was paid to holders of the Company's convertible preferred securities.

Financing activities: On June 23, 1999, the Company issued 4.6 million common shares (9.2 million common shares after giving effect to the two-for-one stock split) and 4.6 million convertible preferred securities. The common shares were issued at a pre-split $91.45 per share (U.S.$62.56 per share), or $45.73 per share (U.S.$31.28 per share) after

giving effect to the two-for-one stock split, and the convertible preferred securities were issued at U.S.$50 per security. Net of underwriting fees and other issue costs, the Company received $726 million (U.S.$497 million). During 1999, the Company recorded $235 million in capital lease obligations ($156 million in 1998) for capital leases for new equipment and the exercise of purchase options on existing equipment.

The proceeds from the sale of common shares and convertible preferred securities were used to repay $185 million (U.S.$125 million) of commercial paper on June 23, 1999 and $456 million (U.S.$310 million) of the Company's revolving credit facility on June 25, 1999. During 1999, the Company repaid $497 million (U.S.$341 million) of commercial paper and $321 million (U.S.$220 million) of the revolving credit facility.

Subsequent event – Share repurchase program

On January 25, 2000, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 13 million common shares of the Company's common stock pursuant to a normal course issuer bid, at prevailing market prices. Total shares repurchased through March 1, 2000 were 2.8 million shares at an average cost of $35.56 per share.

Proposed combination of Canadian National and Burlington Northern Santa Fe

On December 18, 1999, CN and BNSF entered into a Combination Agreement (the Combination) providing for the combination of the two companies. To comply with Canadian legal requirements that, among other things, prohibit any person and that person's associates from holding more than 15% of the voting rights in CN, while ensuring that the Combination will be tax efficient for each company's shareholders, the combined enterprise will consist of two public companies: North American Railways, Inc. (NAR), a newly incorporated company, and CN. Upon completion of the Combination, NAR will be the parent company of BNSF and will own all of the limited voting equity shares of CN.

Under the Combination, BNSF shareholders will receive one share of NAR common stock and one CN voting share for each BNSF share, and CN shareholders will receive, for each CN common share, 1.05 CN voting shares and either 1.05 shares of NAR common stock or 1.05 CN exchangeable shares. The CN exchangeable shares will be exchangeable at any time on a one-for-one basis for shares of NAR common stock. CN shareholders who elect to receive the CN exchangeable shares will also receive the right to vote on matters submitted to NAR shareholders in proportion to their economic interest in the combined companies. All shareholders will have voting interests in both NAR and CN, and economic interests in the combined companies. Dividends paid on the NAR common stock and the CN exchangeable shares will be equivalent.

Each share of NAR common stock will be "stapled" to a CN voting share and will trade as a single security. Similarly, each CN exchangeable share will be "stapled" to a CN voting share and will trade as a single security. In addition, CN will issue to NAR limited voting equity shares carrying 10.1% of the voting rights in CN and 100% of CN's equity. The result of these arrangements will be that, at all times, each company will have the same public shareholder base, with each public shareholder effectively having the same economic benefits and voting rights on a per security basis.

The Combination is subject to, among other things, approval by the shareholders of CN and BNSF, as well as approvals by Quebec Superior Court and the U.S. Surface Transportation Board (STB). CN and BNSF currently expect that all regulatory approvals can be obtained and the transaction completed by mid-2001. Shareholders are expected to vote on the proposed Combination during the second quarter of 2000.

In accordance with the terms of the Combination, BNSF has agreed to pay CN a cash termination fee equal to U.S.$450 million and CN has agreed to pay BNSF a cash termination fee equal to U.S.$200 million in the event that the Combination is terminated under the following circumstances: i) an alternative proposal is made by a third party with respect to either BNSF or CN and thereafter the BNSF or CN shareholders vote not to adopt the Combination; or ii) where either of the BNSF or CN board of directors withdraws, adversely modifies or changes its approval or recommendation of the Combination, the transactions that it contemplates or the arrangement resolution; or iii) where BNSF or CN breach certain of their obligations with respect to soliciting and responding to proposals for alternative transactions related to the other party. In addition, if conditions are imposed by the STB that would significantly and adversely affect the economic benefits of the Combination to BNSF, CN and their shareholders, taken as a whole, BNSF or CN may elect not to consummate the transaction and pay termination fees of U.S.$300 million and U.S.$150 million, respectively.

In connection with the Combination, BNSF and CN have granted reciprocal stock options to each other with respect to, in the case of CN, approximately 29 million CN common shares and, in the case of BNSF, approximately 65 million shares of BNSF common stock. The number of shares subject to the stock options is subject to adjustment in each case so that the number of shares subject to the option will always be equal to but not exceed 12.5% of the outstanding common shares of the option issuer after giving effect to the issuance of shares of common stock under the option. The exercise price of an option is, in each case, the average of the closing price of the option issuer's common stock on the New York Stock Exchange on the five trading days preceding the date of notice of exercise. CN's grant of a stock option to BNSF is subject

to the approval of The Toronto Stock Exchange, and BNSF's grant of a stock option to CN is not effective until The Toronto Stock Exchange gives its approval to CN. Each party's option is exercisable under the same circumstances in which that party is entitled to receive a termination fee of U.S.$450 million or U.S.$200 million as discussed above.

Upon consummation, the Combination will be accounted for by NAR using the purchase method of accounting in accordance with Opinion No. 16, "Business Combinations," of the Accounting Principles Board of the American Institute of Certified Public Accountants. Under this method, NAR will prepare its financial statements reflecting the assets and liabilities of BNSF at their historical cost basis, and the fair value of the NAR common stock issued or issuable to CN shareholders will be allocated to the assets and liabilities of CN based on their relative fair value.

Following consummation of the Combination, the financial statements of CN will continue to be prepared on CN's historical cost basis.

Acquisition of Illinois Central Corporation

STB approval

On July 15, 1998, CN and IC filed a formal application with the STB seeking regulatory approval of CN's acquisition of control of IC and the integration of the companies' rail operations. On March 25, 1999, the STB gave verbal approval to the application of control. On May 25, 1999, the CN/IC merger received final, written approval of the STB. That decision was consistent with the March 25, 1999 voting conference. On July 1, 1999, the IC shares acquired by CN pursuant to the cash tender offer and second-step merger previously held in a voting trust pending final approval of the transaction by the STB were released and the Company began to exercise control over IC operations and assets.

Accounting treatment

The acquisition of IC was accounted for as a purchase. Prior to gaining control of IC, the Company accounted for its investment in IC using the equity method. Effective July 1, 1999, the Company assumed control of IC and, retroactive to January 1, 1999, the financial statements of IC are consolidated with those of the Company. For comparative purposes only, pro forma figures have been presented in Note 4 to the 1999 consolidated financial statements as if the Company had consolidated the results of IC on January 1, 1998.

Business risks

Certain information included in this report may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the outlook, the actual results or performance of the Company or the rail industry to be materially different from any future results or performance implied by such statements. Such factors include the factors set forth below as well as other risks detailed from time to time in reports filed by the Company with securities regulators in Canada and the United States.

Competition

The Company faces competition from a variety of carriers, including Canadian Pacific Limited, which operates the other major rail system in Canada serving most of the same industrial and population centers as CN, long distance trucking companies, river barges, pipeline carriers and, in certain markets, major U.S. railroads and other Canadian and U.S. railroads. Competition is generally based on the quality and reliability of service provided, price and the condition and suitability of carriers' equipment. Competition is particularly intense in eastern Canada, where an extensive highway network and population centers located relatively close to one another have encouraged significant competition from trucking companies and rail network over-capacity. In addition, much of the freight carried by the Company consists of commodity goods that are available from other sources in competitive markets. Factors affecting the competitive position of suppliers of these commodities, including exchange rates, could materially affect the demand for goods supplied by the sources served by the Company and, therefore, the Company's volumes, revenues and profit margins.

To a greater degree than other rail carriers, the Company's principal railroad subsidiary in the United States is vulnerable to barge competition because its main routes are parallel to the Mississippi River system. The use of barges for some commodities, particularly coal and grain, often represents a lower cost mode of transportation. Barge competition and barge rates are affected by navigational interruptions from ice, floods and droughts, which can cause widely fluctuating barge rates. The ability of the Company's principal railroad subsidiary in the United States to maintain its market share of the available freight has traditionally been affected by the navigational conditions on the river. As a result of

barge competition, the revenue per ton mile of the Company's principal railroad subsidiary in the United States has generally been lower than industry averages for these commodities.

In recent years, there has been significant consolidation of rail systems in the United States. The resulting larger rail systems are able to offer seamless services in larger market areas and effectively compete with the Company in certain markets. There can be no assurance that the Company will be able to compete effectively against current and future competitors in the railroad industry and that further consolidation within the railroad industry would not adversely affect the Company's competitive position. No assurance can be given that competitive pressures will not lead to reduced revenues, profit margins or both.

The CN-BNSF combination requires STB approval. That approval may not be obtained and, if obtained, may impose conditions adversely affecting the expected benefits of the combination.
CN and BNSF are required to obtain STB approval before the combination may be completed. In addition to its customary considerations, and in a departure from its handling of prior railroad consolidation proceedings, the STB has decided that, in reviewing the transaction, it will consider evidence to be submitted by CN and BNSF, and other interested parties concerning the potential effects of future merger transactions that are likely to occur as a competitive response to the combination. There can be no assurance that the STB will approve the combination or that such approval, if obtained, will not be subject to burdensome requirements and other conditions that will diminish the expected benefits of the combination. Pending STB approval, CN and BNSF will operate as independent companies. Any delay in obtaining STB approval would delay receipt of the benefits of the combination.

Difficulties in effectively coordinating the businesses or other factors could also adversely affect the expected benefits of the CN-BNSF combination.
The combination involves the coordination of two previously independent businesses to provide shippers enhanced rail services over a coordinated network. There can be no assurance that CN and BNSF will be able to coordinate their businesses without encountering operational difficulties or experiencing the loss of key CN or BNSF employees or customers, or that there will be realization of rail service and other efficiencies that are expected to be derived from this coordination. For these and other reasons, there can be no assurance that the estimated annual synergies expected to result from the combination will be realized.

Environment
The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred over the next several years for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities.

The Company's subsidiary, Illinois Central Railroad (ICRR), is one of nine defendants in a class action arising from a tank car fire in New Orleans in 1987. A group of five of the defendants, including the ICRR, have reached an agreement to settle their potential liability for a total of U.S.$152.5 million. The settlement is subject to approval by the Civil District Court for the Parish of Orleans, which has set it for hearing on March 22, 2000. In ICRR's judgment, it has made adequate provision for disposition of the matter.

In the operation of a railroad it is possible that derailments, explosions or other accidents may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future which may be material to address any such harm, including costs relating to the performance of clean-ups, natural resource damage and compensatory or punitive damages relating to harm to individuals or property.

Because the ultimate cost of known contaminated sites cannot be definitely established, and because additional contaminated sites yet unknown may be discovered or future operations may result in accidental releases, no assurance can be given that the Company will not incur material environmental liabilities in the future.

As at December 31, 1999, the Company had aggregate accruals for environmental costs of $96 million ($65 million at December 31, 1998, excluding IC). The Company has not included any reduction in costs for anticipated recovery from insurance.

Legal actions

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions for such items which it considers to be adequate. While the final outcome with respect to actions outstanding or pending as at December 31, 1999 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Labor negotiations

The Company's collective agreements with all Canadian unions expired on December 31, 1997. Following bargaining from late 1997 to mid-1998, all of the unionized workforce in Canada had concluded and ratified three-year collective agreements as of the end of 1998.

The Company is also in negotiation or has concluded agreements with bargaining units in the United States representing employees at: Grand Trunk Western (GTW), Duluth Winnipeg and Pacific (DWP), Illinois Central (IC) and CCP Holdings, Inc. (CCP).

The Company has in place ratified agreements with bargaining units representing 56% of the unionized workforce at GTW and DWP. Meetings are ongoing with the balance of the bargaining units with which the Company has not yet achieved final settlements. Under the Rail Labor Act, there are no time limits to free collective bargaining. Furthermore, there are no statutory limits governing the mediation process. If, after its mediatory efforts, the National Mediation Board concludes that the parties have reached an impasse, it then proffers binding arbitration to resolve the dispute. If either party rejects that proffer, the parties may then, after a period of time, exercise self help.

The Company is in mediation with the Allied Services Division of the Transportation Communications Union at GTW (about 30 employees) and the Transportation Communications Union – Carman Division at DWP (about nine employees).

Approximately 90% of IC employees are unionized, represented by 11 unions. To date, all of IC's principal railroad subsidiary's 11 bargaining units have ratified local agreements that resolve wage and work-rule issues through 1999 for all non-operating crafts, except the BMWE, for which the agreement is valid through 2002, and through 2000 for engineers and trainmen.

At CCP, negotiations are ongoing with the United Transportation Union, Brotherhood of Locomotive Engineers, Brotherhood of Railway Signalmen and Transportation Communications Union (clerical and carmen). The balance of bargaining units have ratified agreements in place through to the end of 2002. Until new agreements are reached, cost-of-living allowance provisions and other terms in previous agreements will continue.

Regulation

The Company's Canadian rail operations are subject to regulation by the Canadian Transportation Agency (CTA) and the federal Minister of Transport under the CTA, the Railway Safety Act (Canada) and certain other statutes. The Company's U.S. rail operations are subject to regulation by the STB. In addition, the Company is subject to a variety of health, safety, labor, environmental and other regulations, all of which can affect its competitive position and profitability.

Financial instruments

Although the Company conducts its business and receives revenues primarily in Canadian dollars, a portion of its revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. The Company has entered into a forward exchange contract (currency swap) with respect to its 15-year Swiss franc bonds. This forward exchange contract acts as a hedge to effectively fix the amount of Canadian dollars required over the term of the debt to make all necessary payments in the foreign currency of issue. The Company has not incurred any significant net gains or losses in respect of this transaction. Losses due to non-performance by the counterparty to its foreign currency swap are not anticipated. Collateral or other security to support financial instruments subject to credit risk is usually not obtained; however, the credit standing of counterparties is regularly monitored.

The Company uses derivative financial instruments from time to time to hedge the exposure to interest rate fluctuations on anticipated transactions.

The Company has a hedging program in place to mitigate the effects of fuel price changes on its operating margins and overall profitability. Various swaps and collar agreements are in place to mitigate the risk of fuel price volatility. The realized gains in 1999 were $5 million. Hedging positions and credit ratings of counterparties are monitored and losses due to counterparty non-performance are not anticipated. During 1999, the Company hedged approximately 38% of the estimated 1999 fuel consumption, and at December 31, 1999, 27% of the estimated 2000 fuel consumption was hedged. Unrecognized gains from the Company's fuel hedging activities were $9 million as at December 31, 1999.

Other risks

In any given year, the Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports. Many of the goods and commodities carried by the Company experience cyclicality in demand. However, many of the bulk commodities the Company transports move offshore and are impacted more by global economic conditions than North American economic cycles. The Company's results of operations can be expected to reflect this cyclicality because of the significant fixed costs inherent in railroad operations. The Company's revenues are affected by prevailing economic conditions, and should an economic slowdown or recession occur in North America or other key markets, the volume of rail shipments carried by the Company is likely to be reduced.

In addition to the inherent risks of the business cycle, the Company is occasionally susceptible to severe weather conditions. For example, in late 1996 and the first quarter of 1997, CN's operations in western Canada were impacted by heavy snowfalls and severe cold weather which caused blockages on the main line serving Vancouver and led to equipment failures, temporarily halting train operations. In the first quarter of 1998, a severe ice storm hit eastern Canada which disrupted operations and service for the railroad as well as CN customers.

Generally accepted accounting principles require the use of historical cost as the basis of reporting in financial statements. As a result, the cumulative effect of inflation, which has significantly increased asset replacement costs for capital-intensive companies such as the Company, is not reflected in operating expenses. Depreciation charges on an inflation-adjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

Management Report

The accompanying consolidated financial statements of Canadian National Railway Company and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. These statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the Company, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this report principally through its Audit and Finance Committee, consisting solely of outside directors. The Audit and Finance Committee reviews the Company's annual consolidated financial statements and recommends their approval by the Board of Directors. Also, the Audit and Finance Committee meets regularly with the Chief, Internal Audit, and with the shareholders' auditors.

These consolidated financial statements have been audited by the shareholders' auditors, KPMG LLP, whose report is presented below.

Claude Mongeau
Senior Vice-President and Chief Financial Officer

January 25, 2000

Auditors' Report

To the shareholders of Canadian National Railway Company

We have audited the consolidated balance sheets of Canadian National Railway Company as at December 31, 1999 and 1998 and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998, and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1999, in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants

Montreal, Canada
January 25, 2000

Consolidated Statement of Income

In millions, except per share data — *Year ended December 31,*	1999	1998	1997
Revenues			
Petroleum and chemicals	$ 878	$ 578	$ 560
Metals and minerals	398	319	310
Forest products	995	817	809
Coal	402	342	401
Grain and fertilizers	1,066	798	941
Intermodal	810	712	716
Automotive	483	377	423
Other items	229	158	153
Total revenues	5,261	4,101	4,313
Operating expenses			
Labor and fringe benefits	1,711	1,457	1,460
Purchased services	591	466	471
Depreciation and amortization	400	210	200
Equipment rents	335	300	339
Fuel	309	269	358
Material	260	224	308
Operating taxes	173	172	185
Casualty and other	249	166	185
Special charge *(Note 14)*	–	590	–
Total operating expenses	4,028	3,854	3,506
Operating income	1,233	247	807
Interest expense *(Note 15)*	(308)	(244)	(118)
Equity in earnings of Illinois Central Corporation *(Note 4)*	–	86	–
Other income *(Note 16)*	46	26	57
Income from continuing operations before income taxes	971	115	746
Income tax expense from continuing operations *(Note 17)*	(369)	(6)	(325)
Income from continuing operations	602	109	421
Discontinued operations (net of applicable income taxes) *(Note 18)*	–	–	(18)
Net income	$ 602	$ 109	$ 403
Basic earnings per share (Note 20)			
Income from continuing operations	$ 3.02	$ 0.60	$ 2.48
Net income	$ 3.02	$ 0.60	$ 2.37

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

In millions	*December 31,* 1999	1998
Assets		
Current assets:		
Cash and cash equivalents	$ 307	$ 263
Accounts receivable *(Note 5)*	803	404
Material and supplies	116	132
Deferred income taxes *(Note 17)*	148	133
Other	153	118
	1,527	1,050
Properties *(Note 6)*	12,863	5,442
Deferred income taxes *(Note 17)*	–	280
Investment in Illinois Central Corporation *(Note 4)*	–	3,802
Other assets and deferred charges	367	290
Total assets	$14,757	$10,864
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued charges *(Note 8)*	$ 1,390	$ 1,174
Current portion of long-term debt *(Note 10)*	272	134
Other	115	84
	1,777	1,392
Deferred income taxes *(Note 17)*	2,253	–
Other liabilities and deferred credits *(Note 9)*	1,260	1,172
Long-term debt *(Note 10)*	3,961	4,009
Shareholders' equity:		
Common shares *(Note 11)*	3,311	2,873
Convertible preferred securities *(Note 11)*	327	–
Contributed surplus	190	190
Currency translation	(9)	7
Retained earnings	1,687	1,221
	5,506	4,291
Total liabilities and shareholders' equity	$14,757	$10,864

On behalf of the Board:

David G.A. McLean
Director

Paul M. Tellier
Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

In millions	Issued and outstanding common shares	Issued and outstanding convertible preferred securities	Common shares	Convertible preferred securities	Contributed surplus	Currency translation	Retained earnings	Total shareholders' equity
Balances December 31, 1996	169.8	–	$ 2,012	$ –	$ 190	$ –	$ 886	$ 3,088
Net income	–	–	–	–	–	–	403	403
Stock options exercised and employee share plans *(Note 12)*	1.4	–	4	–	–	–	–	4
Dividends ($0.46 per share)	–	–	–	–	–	–	(78)	(78)
Balances December 31, 1997	171.2	–	2,016	–	190	–	1,211	3,417
Net income	–	–	–	–	–	–	109	109
Shares issued in second-step acquisition of Illinois Central Corporation	20.2	–	824	–	–	–	–	824
Stock options issued in second-step acquisition of Illinois Central Corporation	–	–	25	–	–	–	–	25
Stock options exercised and employee share plans *(Note 12)*	0.4	–	8	–	–	–	–	8
Currency translation	–	–	–	–	–	7	–	7
Dividends ($0.53 per share)	–	–	–	–	–	–	(99)	(99)
Balances December 31, 1998	191.8	–	2,873	–	190	7	1,221	4,291
Cumulative effect of change in accounting policy *(Note 2)*	–	–	–	–	–	–	(9)	(9)
Net income	–	–	–	–	–	–	602	602
Shares issued *(Note 11)*	9.2	4.6	404	327	–	–	–	731
Stock options exercised and employee share plans *(Note 12)*	1.4	–	34	–	–	–	–	34
Currency translation	–	–	–	–	–	(16)	–	(16)
Dividends ($0.60 per share)	–	–	–	–	–	–	(118)	(118)
Dividends on convertible preferred securities	–	–	–	–	–	–	(9)	(9)
Balances December 31, 1999	202.4	4.6	$3,311	$327	$190	$ (9)	$1,687	$5,506

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions *Year ended December 31,*	1999	1998	1997
Operating activities			
Income from continuing operations	$ 602	$ 109	$ 421
Non-cash items in income:			
Special charge *(Note 14)*	–	590	–
Depreciation and amortization *(Note 19 (B))*	407	213	202
Deferred income taxes *(Note 17)*	324	(13)	315
Equity in earnings of Illinois Central Corporation *(Note 4)*	–	(86)	–
Gain on sale of interest in joint venture	–	–	(21)
Other	(2)	–	–
Changes in:			
Accounts receivable *(Note 5)*	(156)	270	5
Material and supplies	38	18	7
Accounts payable and accrued charges *(Note 8)*	64	109	26
Other net current assets and liabilities	(27)	(10)	(44)
Payments for workforce reduction	(219)	(187)	(197)
Other	(70)	(60)	(36)
Cash provided from continuing operations	961	953	678
Investing activities			
Net additions to properties *(Note 19 (B))*	(629)	(494)	(393)
Net proceeds from disposal of properties	70	90	122
Net proceeds from sale of interest in joint venture	–	–	23
Investment in Illinois Central Corporation *(Note 4)*	–	(2,608)	–
Other	2	–	8
Cash used by investing activities	(557)	(3,012)	(240)
Dividends paid to shareholders	(127)	(99)	(78)
Financing activities			
Issuance of long-term debt	456	4,589	13
Reduction of long-term debt	(1,509)	(2,541)	(98)
Issuance of common shares *(Note 11)*	438	8	4
Issuance of convertible preferred securities *(Note 11)*	327	–	–
Cash provided from (used by) financing activities	(288)	2,056	(81)
Cash provided from (used by) discontinued operations *(Note 18)*	1	–	(20)
Net increase (decrease) in cash	(10)	(102)	259
Cash and cash equivalents, beginning of year*	317	365	106
Cash and cash equivalents, end of year	$ 307	$ 263	$ 365

** The cash and cash equivalents balance at the beginning of 1999 includes the cash and cash equivalents of Illinois Central Corporation which has been consolidated beginning in 1999.*

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

CN, directly and through its subsidiaries, is engaged primarily in the rail transportation business. CN spans Canada and mid-America, from the Atlantic and Pacific oceans to the Gulf of Mexico, serving the Canadian ports of Vancouver, Prince Rupert, Montreal and Halifax, and Gulf of Mexico ports in New Orleans, Louisiana and Mobile, Alabama, and the key cities of Vancouver, Edmonton, Calgary, Winnipeg, Montreal, Toronto, Buffalo, Chicago, Detroit, Memphis, St. Louis and Jackson, Mississippi, with connections to all points in North America. CN's revenues are derived from the movement of a diversified and balanced portfolio of goods, including petroleum and chemicals, grain and fertilizers, coal, metals and minerals, forest products, intermodal and automotive.

1 Summary of significant accounting policies

These consolidated financial statements are expressed in Canadian dollars, except where otherwise indicated, and have been prepared in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

A. Principles of consolidation

These consolidated financial statements include the accounts of all subsidiaries, including Illinois Central Corporation (IC) for which the Company acquired control effective July 1, 1999 and has consolidated IC's financial statements retroactive to January 1, 1999. During 1998, the Company accounted for its investment in IC using the equity method of accounting pending approval of the acquisition of control of IC from the U.S. Surface Transportation Board (STB). The Company's investments, in which the Company has joint control, are accounted for using the proportionate consolidation method.

B. Revenues

Freight revenues are recognized based on the percentage of completed service method. Costs associated with movements are recognized as the service is performed.

C. Foreign exchange

The Company's U.S. operations, excluding IC, are classified as integrated with the Canadian dollar as the functional currency and are translated into Canadian dollars and accounted for on the following basis: monetary assets and liabilities are translated at the rates in effect at the balance sheet date; non-monetary assets and liabilities are translated at historical exchange rates; revenues and expenses are translated at average exchange rates during the year except for depreciation, which is translated at exchange rates prevailing when the related properties were acquired; and other currency gains and losses are reflected in net income for the year. The Company's own foreign denominated assets and liabilities are accorded similar treatment.

IC is considered a self-sustaining foreign entity with the U.S. dollar as its functional currency. Accordingly, IC's assets and liabilities are translated into Canadian dollars at the rate in effect at the balance sheet date, and the revenues and expenses, including the equity in earnings of IC for 1998, are translated at average exchange rates during the year.

The Company has designated all of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in IC. Unrealized foreign exchange gains and losses, from the date of designation, on the translation of the Company's U.S. dollar denominated debt are included in Currency translation, which forms part of Shareholders' equity, along with the unrealized foreign exchange gains and losses on the translation of the Company's net investment in IC.

D. Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

E. Material and supplies

The inventory is valued at weighted-average cost for ties and rails, latest invoice price for fuel and new materials in stores, and at estimated utility or sales value for usable secondhand, obsolete and scrap materials.

F. Properties

Railroad properties are carried at cost less accumulated depreciation including asset impairment write-downs. All costs of materials associated with the installation of rail, ties, ballast and other track improvements are capitalized to the extent they meet the Company's definition of "unit of property." The related labor and overhead costs are also capitalized for the installation of new, non-replacement track. All other labor and overhead costs and maintenance costs are expensed as incurred. Related interest costs are charged to expense. Additions to other property and equipment include the cost of developing computer software for internal use.

The cost of railroad properties, less salvage value, retired or disposed of in the normal course of business is charged to accumulated depreciation, in accordance with the group method of depreciation. The Company reviews the carrying amounts of properties whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows or estimated net realizable value. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

G. Depreciation
The cost of properties, net of asset impairment write-downs, is depreciated on a straight-line basis over their estimated useful lives as follows:

Asset class	Annual rate
Track and roadway	2%
Buildings	3%
Rolling stock	3%
Other	2%

The Company performs periodic reviews of its depreciation rates. Adjustments to rates resulting from such reviews have not had a material impact on operating results.

H. Pensions
Pension costs are determined periodically by independent actuaries. Pension expense is charged to operations and includes:

(i) the cost of pension benefits provided in exchange for employees' services rendered during the year,

(ii) the amortization of the initial net transition obligation on a straight-line basis over the expected average remaining service life of the employee group covered by the plans,

(iii) the amortization of past service costs and amendments over the expected average remaining service life of the employee group covered by the plans, and

(iv) the interest cost of pension obligations, the return on pension fund assets, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets over the expected average remaining service life of the employee group covered by the plans.

The pension plans are funded through contributions determined in accordance with the projected unit credit actuarial cost method.

I. Post-retirement benefits other than pensions
The Company accrues the cost of post-retirement benefits other than pensions. These benefits, which are funded by the Company as they become due, include life insurance programs, medical benefits, supplemental pension allowances and free rail travel benefits. The Company amortizes the cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets over the expected average remaining service life of the employee group covered by the plans.

J. Financial instruments
Derivative financial instruments may be used from time to time by the Company in the management of its fuel, interest rate and foreign currency exposures. Gains or losses on such instruments entered into for the purposes of hedging financial risk exposures are deferred and amortized in the results of operations over the life of the hedged asset or liability, or over the terms of the derivative financial instrument.

Income and expense related to financial instruments are recorded in the same category as that generated by the underlying asset or liability.

K. Environmental expenditures
Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are likely, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated.

L. Income taxes
The Company follows the asset and liability method for accounting for income taxes. Under the asset and liability method, the change in the net deferred tax asset or liability is included in income. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

2 Accounting changes

The Company has made certain changes in accounting policies to conform to new accounting standards.

1999
In 1999, the Company adopted the Canadian Institute of Chartered Accountants' (CICA) recommendations related to the accounting for employee future benefits. Specifically, the standard outlines guidance for the accounting for pension, post-retirement and workers' compensation costs. In accordance with the transitional provisions of the new standard, the Company has applied the recommendations retroactively but has not restated comparative periods. The cumulative effect of the adoption of the new standard of $17 million ($9 million after tax) has been reflected as an adjustment to opening retained earnings.

1998
In 1998, the Company adopted the CICA recommendations related to the presentation of cash flow statements. The standard requires that, among other things, non-cash items be excluded from investing and financing activities and disclosed elsewhere in the consolidated financial statements in a way that provides all relevant information about these investing and financing activities. The standard requires retroactive application with prior comparative information being restated.

In 1998, the Company adopted specific U.S. guidance related to the accounting for computer software costs as found in Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In accordance with the requirements of this statement, this change has been applied prospectively. The impact of the adoption of SOP 98-1 was to increase net income by approximately $13 million for the year ended December 31, 1998. The Company has not applied this accounting change retroactively as the impact on prior years' comparative figures is not significant.

2 Accounting changes *(continued)*

1997

In 1997, the Company adopted the CICA recommendations for the accounting for income taxes. The standard requires the use of the asset and liability method for accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date. Deferred income tax assets are evaluated, and if realization is not considered "more likely than not," a valuation allowance is provided.

Previously, the Company followed the deferral method of accounting for income taxes which related the provision for income taxes to the accounting income for the period. Under the deferral method, the amount by which the income tax provision differed from the amount of income taxes currently payable was considered to represent the deferring to future periods of benefits obtained or expenditures incurred in the current period and accordingly was computed at current income tax rates. The accumulated income tax allocation debit or credit balance was not adjusted to reflect subsequent changes in income tax rates. Also, under the deferral method, tax benefits related to accounting losses could only be recognized in the period the loss was incurred if there was virtual certainty of realizing these benefits.

As a result of the change in accounting policy, an income tax recovery (including discontinued operations) of $708 million, or $4.17 per share, was recorded in 1996 for income tax benefits related to years prior to 1997. In 1997, income tax expense of $303 million, or $1.78 per share, related to income before tax was recorded.

3 Proposed combination of Canadian National and Burlington Northern Santa Fe

On December 18, 1999, CN and Burlington Northern Santa Fe Corporation (BNSF) entered into a Combination Agreement (the Combination) providing for the combination of the two companies. To comply with Canadian legal requirements that, among other things, prohibit any person and that person's associates from holding more than 15% of the voting rights in CN, while ensuring that the Combination will be tax efficient for each company's shareholders, the combined enterprise will consist of two public companies: North American Railways, Inc. (NAR), a newly incorporated company, and CN. Upon completion of the Combination, NAR will be the parent company of BNSF and will own all of the limited voting equity shares of CN.

Under the Combination, BNSF shareholders will receive one share of NAR common stock and one CN voting share for each BNSF share, and CN shareholders will receive, for each CN common share, 1.05 CN voting shares and either 1.05 shares of NAR common stock or 1.05 CN exchangeable shares. The CN exchangeable shares will be exchangeable at any time on a one-for-one basis for shares of NAR common stock. CN shareholders who elect to receive the CN exchangeable shares will also receive the right to vote on matters submitted to NAR shareholders in proportion to their economic interest in the combined companies. All shareholders will have voting interests in both NAR and CN, and economic interests in the combined companies. Dividends paid on the NAR common stock and the CN exchangeable shares will be equivalent.

Each share of NAR common stock will be "stapled" to a CN voting share and will trade as a single security. Similarly, each CN exchangeable share will be "stapled" to a CN voting share and will trade as a single security. In addition, CN will issue to NAR limited voting equity shares carrying 10.1% of the voting rights in CN and 100% of CN's equity. The result of these arrangements will be that, at all times, each company will have the same public shareholder base with each public shareholder effectively having the same economic benefits and voting rights on a per security basis.

The Combination is subject to, among other things, approval by the shareholders of CN and BNSF, as well as approvals by Quebec Superior Court and the STB. CN and BNSF currently expect that all regulatory approvals can be obtained and the transaction completed by mid-2001. Shareholders are expected to vote on the proposed Combination during the second quarter of 2000.

In accordance with the terms of the Combination, BNSF has agreed to pay CN a cash termination fee equal to U.S.$450 million and CN has agreed to pay BNSF a cash termination fee equal to U.S.$200 million in the event that the Combination is terminated under the following circumstances: i) an alternative proposal is made by a third party with respect to either BNSF or CN and thereafter the BNSF or CN shareholders vote not to adopt the Combination; or ii) where either of the BNSF or CN board of directors withdraws, adversely modifies or changes its approval or recommendation of the Combination, the transactions that it contemplates or the arrangement resolution; or iii) where BNSF or CN breach certain of their obligations with respect to soliciting and responding to proposals for alternative transactions related to the other party. In addition, if conditions are imposed by the STB that would significantly and adversely affect the economic benefits of the Combination to BNSF, CN and their shareholders, taken as a whole, BNSF or CN may elect not to consummate the transaction and pay termination fees of U.S.$300 million and U.S.$150 million, respectively.

In connection with the Combination, BNSF and CN have granted reciprocal stock options to each other with respect to, in the case of CN, approximately 29 million CN common shares and, in the case of BNSF, approximately 65 million shares of BNSF common stock. The number of shares subject to the stock options is subject to adjustment in each case

so that the number of shares subject to the option will always be equal to but not exceed 12.5% of the outstanding common shares of the option issuer after giving effect to the issuance of shares of common stock under the option. The exercise price of an option is, in each case, the average of the closing price of the option issuer's common stock on the New York Stock Exchange on the five trading days preceding the date of notice of exercise. CN's grant of a stock option to BNSF is subject to the approval of The Toronto Stock Exchange, and BNSF's grant of a stock option to CN is not effective until The Toronto Stock Exchange gives its approval to CN. Each party's option is exercisable under the same circumstances in which that party is entitled to receive a termination fee of U.S.$450 million or U.S.$200 million as discussed above.

Upon consummation, the Combination will be accounted for by NAR using the purchase method of accounting in accordance with Opinion No. 16, "Business Combinations," of the Accounting Principles Board of the American Institute of Certified Public Accountants. Under this method, NAR will prepare its financial statements reflecting the assets and liabilities of BNSF at their historical cost basis, and the fair value of the NAR common stock issued or issuable to CN shareholders will be allocated to the assets and liabilities of CN based on their relative fair value.

Following consummation of the Combination, the financial statements of CN will continue to be prepared on CN's historical cost basis.

4 Acquisition and consolidation of Illinois Central Corporation

In 1998, the Company, through an indirect wholly owned subsidiary, acquired IC in a two-step transaction for a purchase price of approximately U.S.$2.4 billion payable as to 75% in cash and 25% in common shares of the Company. On March 14, 1998, the Company acquired 75% of the outstanding common shares of IC for $2,549 million (U.S.$1,796 million) or U.S.$39 per share. On June 4, 1998, the Company acquired the remaining 25% of the outstanding common shares of IC for 20.2 million shares of the Company's common stock. In addition, the outstanding IC stock options were exchanged for stock options of the Company.

Pending approval from the STB, the Company accounted for its investment in IC under the equity method of accounting in accordance with Accounting Principles Board Opinion (APB) 18, "The Equity Method of Accounting for Investments in Common Stock." The investment in IC at December 31, 1998 includes an investment of $3,398 million related to the acquisition of IC shares pursuant to the cash tender offer and the second-step merger, $259 million related to the translation of the investment to its current Canadian dollar equivalent, $59 million for transaction-related expenses, and $86 million of equity in the earnings of IC from the date of acquisition to December 31, 1998.

The Consolidated Statement of Income for the year ended December 31, 1998 includes various items related to the acquisition of IC, including $117 million pre-tax interest costs on debt associated with financing the cash tender offer. The $86 million equity in the earnings of IC included in the Consolidated Statement of Income for the year ended December 31, 1998 represents the Company's portion of IC's earnings from March 14, 1998, net of the amortization of the difference between the Company's cost to acquire IC and the underlying historical equity in net assets of IC, based on preliminary estimates of the fair values of IC's properties and equipment, and estimates of their remaining useful lives, as well as estimates of the fair values of other IC assets and liabilities. In total, items related to the IC acquisition increased net income for the year ended December 31, 1998 by $18 million. These amounts, as well as the impact of the issuance of shares pursuant to the second-step merger, increased the earnings per share by $0.07 for the year ended December 31, 1998. Excluding the 1998 special charge, the earnings per share decreased by $0.07.

Effective July 1, 1999, the Company assumed control of IC and consolidated the results of IC since January 1, 1999. On July 1, 1999, the excess ($2,533 million) of the Company's investment in IC over IC's net equity was allocated using the principles of purchase accounting to properties ($4,212 million), deferred income taxes ($1,554 million), and debt and other liabilities ($125 million). The Company is amortizing the excess of the purchase price over IC's net equity using the principles of purchase accounting, based primarily on the estimated remaining useful lives of IC's properties.

The following table presents the pro forma condensed consolidated statement of income for the year ended December 31, 1998 assuming CN had acquired control of IC at the beginning of 1998, and the actual results from operations for 1999.

Canadian National Railway Company
Pro Forma Condensed Consolidated Statement of Income

In millions, except per share data *Year ended December 31,*	1999	1998
		Pro forma
		(Unaudited)
Revenues	$5,261	$5,160
Operating expenses [1]	4,028	4,680
Operating income	1,233	480
Interest expense	(308)	(333)
Other income	46	32
Income before income taxes	971	179
Income tax expense	(369)	(47)
Net income	$ 602	$ 132
Basic earnings per share	$ 3.02	$ 0.69

(1) 1998 includes a special charge of $590 million.

4 Acquisition and consolidation of Illinois Central Corporation *(continued)*

In 1998, the Company followed the equity method to account for its investment in IC. Accordingly, summary financial information for IC on its historical cost basis, prepared in accordance with U.S. GAAP, for the year ended and as at December 31, 1998, is presented below:

Illinois Central Corporation
Condensed Consolidated Statement of Income

In millions of U.S.$ *Year ended December 31,*	1998
Revenues	$729
Operating expenses	521
Operating income	208
Other income	9
Interest expense	(41)
Income before income taxes	176
Income tax expense	(70)
Net income	$106

Operating expenses for the year ended December 31, 1998 included special charges of U.S.$49 million (U.S.$41 million after tax) for severance and other costs related to the merger.

Illinois Central Corporation
Condensed Consolidated Balance Sheet

In millions of U.S.$ *December 31,*	1998
Assets	
Current assets	$ 250
Non-current assets	1,924
Total assets	$2,174
Liabilities and stockholders' equity	
Current liabilities	$ 297
Long-term debt	557
Deferred taxes	443
Other liabilities	130
Stockholders' equity	747
Total liabilities and stockholders' equity	$2,174

5 Accounts receivable

In millions *December 31,*	1999	1998
Freight		
Trade	$441	$217
Accrued	161	48
Non-freight	247	180
	849	445
Provision for doubtful accounts	(46)	(41)
	$803	$404

On June 25, 1998, the Company entered into a five-year revolving agreement to sell eligible freight trade receivables up to a maximum of $250 million. At December 31, 1999, pursuant to the agreement, $147 million and U.S.$40 million (Cdn$58 million) had been sold on a limited recourse basis compared to $150 million and U.S.$45 million (Cdn$69 million) at December 31, 1998. The Company has retained the responsibility for servicing and collecting the accounts receivable sold. Costs related to the agreement, which fluctuate with changes in prevailing interest rates, are included in Other income.

6 Properties

In millions	*December 31, 1999*			*December 31, 1998*		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Track and roadway	$12,824	$2,993	$ 9,831	$ 6,641	$3,059	$3,582
Buildings	1,109	543	566	875	517	358
Rolling stock	3,247	1,132	2,115	2,296	1,059	1,237
Other	839	488	351	774	509	265
	$18,019	$5,156	$12,863	$10,586	$5,144	$5,442
Capital leases included in properties	$ 1,003	$ 115	$ 888	$ 617	$ 72	$ 545

7 Credit facilities

The Company has a U.S.$1,000 million revolving credit facility which expires in 2003. The credit facility provides for interest on borrowings at various interest rates including the Canadian prime rate, bankers' acceptance rates, the U.S. federal funds effective rate and the London Interbank Offer Rate plus applicable margins. The credit facility agreement contains customary financial covenants, based on U.S. generally accepted accounting principles, including i) limitations on debt as a percentage of total capitalization, ii) maintenance of tangible net worth above predefined levels, and iii) maintenance of the fixed charge coverage ratio above predefined levels. The Company was in compliance with all of these financial covenants throughout the year. The Company's commercial paper program is backed up by the five-year revolving credit facility. In June 1999, the Company used proceeds from the sale of common shares and convertible preferred securities to repay U.S.$125 million (Cdn$185 million) of commercial paper and U.S.$310 million (Cdn$456 million) of the Company's revolving credit facility. In July 1999, the balance of the revolving credit facility was repaid. As at December 31, 1999, the Company had U.S.$6 million (Cdn$9 million) of commercial paper outstanding.

8 Accounts payable and accrued charges

In millions *December 31,*	1999	1998
Trade payables	$ 503	$ 324
Current portion of workforce reduction provisions	182	235
Payroll-related accruals	185	177
Accrued charges	195	155
Accrued interest on long-term debt	119	111
Accrued operating leases	29	85
Other	177	87
	$1,390	$1,174

9 Other liabilities and deferred credits

In millions *December 31,*	1999	1998
Workforce reduction provisions, net of current portion *(A)*	$ 517	$ 590
Accrual for post-retirement benefits other than pensions *(B)*	220	149
Personal injury reserve	218	108
Environmental reserve, net of current portion	66	38
Deferred credits and other	239	287
	$1,260	$1,172

A. Workforce reduction provisions

The workforce reduction provisions, which cover employees in both Canada and the United States, are mainly comprised of severance payments which will be disbursed over a period of up to six years. Other elements of the provisions mainly include early retirement incentives and bridging to early retirement. Payments for severance and other elements of the provisions have reduced the provisions by $219 million for the year ended December 31, 1999 ($187 million for the year ended December 31, 1998). The aggregate provisions amount to $699 million at December 31, 1999.

B. Post-retirement benefits other than pensions

(i) Change in benefit obligation

In millions *Year ended December 31,*	1999	1998
Benefit obligation at beginning of year, as previously reported	$150	$132
Adjustment related to adoption of new standard *(Note 2)*	22	–
Benefit obligation at beginning of year, as adjusted	172	132
Consolidation of IC	67	–
Service cost	8	4
Interest cost	15	10
Foreign currency changes	(3)	2
Actuarial (gain) loss	(13)	9
Benefits paid	(16)	(7)
Benefit obligation at end of year	$230	$150

ii) Funded status

In millions *December 31,*	1999	1998
Unfunded benefit obligation at end of year	$230	$150
Unrecognized net actuarial gain (loss)	(6)	5
Unrecognized prior service cost	(4)	(6)
Accrued benefit cost for post-retirement benefits other than pensions	$220	$149

(iii) Components of net periodic benefit cost

In millions *Year ended December 31,*	1999	1998	1997
Service cost	$ 8	$ 4	$ 3
Interest cost	15	10	7
Amortization of prior service cost	1	1	1
Recognized net actuarial (gain) loss	2	6	(2)
Net periodic benefit cost	$26	$21	$ 9

(iv) Weighted-average assumptions

December 31,	1999	1998	1997
Discount rate	7.39%	7.50%	7.44%
Rate of compensation increase	4.25%	4.25%	4.50%

The effect of a one-percentage-point increase or decrease in the assumed health care cost trend would be to increase or decrease the 1999 net periodic benefit cost by less than $1 million and the post-retirement benefit obligation by approximately $4 million.

10 Long-term debt

In millions	Maturity	Currency in which payable	December 31, 1999	1998
Bonds, debentures and notes: (A)				
Canadian National series:				
9¾% 7-year notes	May 14, 1999	Cdn$	$ –	$ 50
5⅜% 15-year Swiss franc bonds *(B)*	Aug. 22, 2000	CHF	99	99
8⅜% 15-year notes	May 21, 2001	Cdn$	150	150
6⅝% 10-year notes	May 15, 2003	U.S.$	218	230
7% 10-year notes	Mar. 15, 2004	U.S.$	386	407
6.45% Puttable Reset Securities (PURS) *(C)*	July 15, 2006	U.S.$	363	383
6.80% 20-year notes *(D)*	July 15, 2018	U.S.$	291	307
7⅝% 30-year debentures	May 15, 2023	U.S.$	218	230
6.90% 30-year notes *(D)*	July 15, 2028	U.S.$	690	728
Illinois Central series:				
6.83% 5-year notes	May 17, 2000	U.S.$	44	–
7.12% 5-year notes	Aug. 2, 2001	U.S.$	73	–
6.72% 5-year notes	Aug. 14, 2001	U.S.$	73	–
4% 2-year notes	Mar. 1, 2002	U.S.$	1	–
6¾% 10-year notes	May 15, 2003	U.S.$	145	–
Non-interest bearing 7-year notes	Nov. 29, 2003	U.S.$	1	–
7¾% 10-year notes	May 1, 2005	U.S.$	145	–
6.98% 12-year notes	July 12, 2007	U.S.$	73	–
6.63% 10-year notes	June 9, 2008	U.S.$	29	–
5% 99-year income debentures	July 1, 2032	U.S.$	1	–
5% 99-year income debentures	Dec. 1, 2056	U.S.$	12	–
7.7% 100-year debentures	Sep. 15, 2096	U.S.$	182	–
Total bonds, debentures and notes			3,194	2,584
Other:				
Mortgages		Cdn$	14	15
Revolving credit facility *(Note 7)*		U.S.$	–	337
Commercial paper *(E) (Note 7)*		U.S.$	9	532
Capital lease obligations, amounts owing under equipment agreements and other *(F)*		Various	1,029	683
Total other			1,052	1,567
Subtotal			4,246	4,151
Less:				
Current portion of long-term debt			272	134
Net unamortized discount			13	8
			285	142
			$3,961	$4,009

A. The Company's bonds, debentures and notes are unsecured.

B. The August 22, 2000 bonds issued in Swiss francs (CHF170 million), bearing an interest rate of 5⅜%, were effectively converted at their issue date to a $99 million Canadian dollar obligation through a currency swap agreement at an all-inclusive cost of 11.17%.

C. The PURS contain imbedded simultaneous put and call options at par. At the time of issuance, the Company sold the option to call the securities on July 15, 2006 (the reset date). If the call option is exercised, the imbedded put option is automatically triggered, resulting in the redemption of the original PURS. The call option holder will then have the right to remarket the securities at a new coupon rate for an additional 30-year term ending July 15, 2036. The new coupon rate will be determined according to a pre-set mechanism based on market conditions then prevailing. If the call option is not exercised, the put option is deemed to have been exercised, resulting in the redemption of the PURS on July 15, 2006.

D. The 20-year and 30-year notes are redeemable, in whole or in part, at the option of the Company, at any time, at the greater of par and a formula price based on interest rates prevailing at the time of redemption.

E. During 1998, the Company initiated a commercial paper program. The program enables the Company to issue commercial paper up to a maximum aggregate principal amount of $600 million or the U.S. dollar

equivalent and is supported by the revolving credit facility. Commercial paper debt is due within one year but has been classified as long-term debt, reflecting the Company's intent and ability to refinance the short-term borrowing through subsequent issuances of commercial paper or drawing down on the revolving credit facility.

F. Interest rates for the capital leases range from approximately 3¾% to 14½% with maturity dates in the years 2000 through 2016. The imputed interest on these leases amounted to $577 million as at December 31, 1999, and $530 million as at December 31, 1998.

The equipment agreements are secured by rolling stock and payable by monthly or semi-annual installments over various periods to 2003 at interest rates ranging from 6% to 13.7%. The principal amounts are payable as follows: $39 million and U.S.$12 million (Cdn$17 million) as at December 31, 1999, and $44 million and U.S.$16 million (Cdn$25 million) as at December 31, 1998.

G. Principal repayments for the following fiscal years, including repurchase arrangements and capital lease repayments on debt outstanding as at December 31, 1999 but excluding repayments of commercial paper of $9 million (U.S.$6 million), are as follows:

Year	*In millions* Amount
2000	$ 272
2001	430
2002	105
2003	468
2004	462
2005 and thereafter	2,487

H. The aggregate amount of debt payable in U.S. currency as at December 31, 1999 is U.S.$2,332 million (Cdn$3,389 million) and as at December 31, 1998 is U.S.$2,343 million (Cdn$3,590 million).

I. During 1999, the Company recorded $337 million in assets and the corresponding debt for assets acquired through the exercise of purchase options on existing leases and leases for new equipment.

11 Capital stock and convertible preferred securities

A. Authorized capital stock

The authorized capital stock of the Company is as follows:

- Unlimited number of Common Shares, without par value
- Unlimited number of Class A Preferred Shares, without par value issuable in series
- Unlimited number of Class B Preferred Shares, without par value issuable in series

B. Issued and outstanding common shares

During 1999, the Company issued 9.2 million common shares as a result of the June 23, 1999 public offering. The Company also issued 1.4 million shares related to stock options exercised and employee share plans. The total number of common shares issued and outstanding was 202.4 million as at December 31, 1999.

C. Convertible preferred securities

On June 23, 1999, the Company issued 4.6 million convertible preferred securities at U.S.$50 per security. These securities are subordinated securities convertible into common shares of CN at the option of the holder at an original conversion price of U.S.$38.48 per common share, representing an original conversion rate of 1.2995 common shares for each convertible preferred security. On or after July 1, 2002, at the option of CN but subject to certain conditions, the holder's rights to convert these securities may be extinguished if the current market price exceeds 120% of the conversion price for a certain period. These securities will bear interest, payable quarterly in U.S. dollars, at a rate of 5.25% per year, and are due on June 30, 2029.

D. Stock split

On July 20, 1999, the Board of Directors of the Company approved a two-for-one common stock split which was effected in the form of a stock dividend of one additional common share of CN common stock payable for each share outstanding or held in treasury on September 27, 1999 to shareholders of record on September 23, 1999. All equity based benefit plans reflect the issuance of additional shares or options due to the declaration of the stock split. All share and per share data reflect the effect of the stock split.

E. Share repurchase program

On January 25, 2000, the Board of Directors of the Company approved a share repurchase program which allows for the repurchase of up to 13 million common shares of the Company's common stock pursuant to a normal course issuer bid, at prevailing market prices.

12 Stock plans

A. Employee share plan

Effective September 1, 1997, an Employee Share Investment Plan (ESIP) was implemented giving eligible employees the opportunity to subscribe for up to 6% of their gross salaries to purchase shares of the Company's common stock on the open market and to have the Company invest, on the employee's behalf, a further 35% of the amount invested by the employee. Participation at December 31, 1999 was 7,359 employees (5,100 at December 31, 1998). The total number of ESIP shares purchased on behalf of employees, including the Company's contributions, was 375,681 in 1999 and 244,122 in 1998, resulting in a pre-tax charge to income of $5 million and $3 million for the years ended December 31, 1999 and 1998, respectively.

B. Stock options

The Company has stock option plans for eligible managers to acquire common shares of the Company upon vesting at a price equal to the market value of the common shares at the date of granting. The options are exercisable during a period not to exceed 10 years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first

12 Stock plans *(continued)*

12 months after the date of grant. At December 31, 1999, a total of 9.6 million common shares remained authorized for issuance under these plans.

Options issued by the Company include conventional options, which vest over a period of time, and performance options, which vest upon the attainment of Company targets relating to the operating ratio and unlevered return on investment. The total conventional and performance options outstanding at December 31, 1999 were 4.1 million and 4.2 million, respectively.

Changes in the Company's stock options are as follows:

	Number of options	Weighted-average exercise price
	In millions	
Outstanding at December 31, 1996	3.1	$15.57
Granted	1.1	$28.29
Canceled	(0.3)	$15.53
Exercised	(0.3)	$14.75
Outstanding at December 31, 1997	3.6	$19.43
Conversion of IC options	3.0	U.S.$22.57
Granted	1.3	$37.35
Canceled	(0.4)	$20.22
Exercised	(0.4)	$19.42
Outstanding at December 31, 1998 (1)	7.1	$29.11
Granted	3.0	$45.46
Canceled	(0.4)	$34.51
Exercised	(1.4)	$25.43
Outstanding at December 31, 1999 (1)	**8.3**	**$34.88**

(1) Includes the IC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

13 Pensions

The Company has retirement benefit plans under which substantially all employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. The tables that follow pertain to all such plans. However, the following descriptions relate solely to the Company's main pension plan, the CN Pension Plan. The Company's other pension plans are not significant.

Description of plan

The CN Pension Plan (the Pension Plan) is a contributory defined benefit pension plan that covers substantially all CN employees. It provides for pensions based mainly on years of service and final average pensionable earnings and is generally applicable from the first day of employment. Indexation of pensions is provided after retirement through a gain (loss) sharing mechanism, subject to guaranteed minimum increases. An independent trust company is the Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds). As Trustee, the trust company performs certain duties which include holding legal title to the assets of the CN Pension Trust Funds and ensuring that the Company, as Administrator, complies with the provisions of the Pension Plan and the related legislation.

Stock options outstanding and exercisable as at December 31, 1999 were as follows:

		Options outstanding			Options exercisable	
	Range of exercise prices	Number of options	Weighted-average years to expiration	Weighted-average exercise price	Number of options	Weighted-average exercise price
		In millions			*In millions*	
Options granted in 1995	$13.50	0.7	3	$ 13.50	0.7	$ 13.50
Options granted in 1996	$18.52–$23.72	0.7	3	$ 18.66	0.3	$ 18.73
Options granted in 1997	$24.85–$38.75	0.7	5	$ 28.33	0.2	$ 28.67
Options granted in 1998 (1)	$ 9.25–$46.25	3.3	7	$ 34.91	2.3	$ 33.91
Options granted in 1999	$36.14–$49.45	2.9	9	$ 45.40	–	–
Balance at December 31, 1999 (1)		**8.3**	7	**$34.88**	**3.5**	**$28.16**

(1) Includes the IC converted stock options translated to Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

Funding policy

Employee contributions to the Pension Plan are determined by the plan rules. Company contributions are in accordance with the requirements of the Government of Canada legislation, The Pension Benefits Standards Act, 1985, and are determined by actuarial valuations conducted at least on a triennial basis. These valuations are made in accordance with legislative requirements and with the recommendations of the Canadian Institute of Actuaries for the valuation of pension plans.

Description of fund assets

The assets of the CN Pension Plan are accounted for separately in the CN Pension Trust Funds. These assets consist of cash and short-term investments, bonds, mortgages, Canadian and foreign equities, real estate, and oil and gas assets.

(a) Change in benefit obligation

In millions *Year ended December 31,*	**1999**	1998
Benefit obligation at beginning of year, as previously reported	**$ 8,989**	$8,736
Adjustment related to adoption of new standard *(Note 2)*	**1,551**	–
Benefit obligation at beginning of year, as adjusted	**10,540**	8,736
Amendments	**–**	134
Service cost	**95**	60
Interest cost	**632**	642
Plan participants' contributions	**73**	76
Foreign currency changes	**(3)**	7
Effect of curtailment	**–**	23
Actuarial gain	**(746)**	(44)
Benefit payments and transfers	**(656)**	(645)
Benefit obligation at end of year	**$ 9,935**	$8,989

(b) Change in plan assets

In millions *Year ended December 31,*	**1999**	1998
Fair value of plan assets at beginning of year	**$10,728**	$ 9,984
Actual return on plan assets	**1,567**	1,229
Employer contributions	**59**	77
Plan participants' contributions	**73**	76
Foreign currency changes	**(3)**	7
Benefit payments and transfers	**(656)**	(645)
Fair value of plan assets at end of year	**$11,768**	$10,728

(c) Funded status

In millions *December 31,*	**1999**	1998
Excess of fair value of plan assets over benefit obligation at end of year [1]	**$ 1,833**	$ 1,739
Unrecognized net actuarial gain [1]	**(1,976)**	(2,399)
Unrecognized net transition obligation	**78**	369
Unrecognized prior service cost	**172**	314
Net amount recognized	**$ 107**	$ 23

(1) Subject to future gain sharing under the terms of the plan.

(d) Amount recognized in the Consolidated Balance Sheet

In millions *December 31,*	**1999**	1998
Prepaid benefit cost	**$ 113**	$ 30
Accrued benefit cost	**(6)**	(7)
Net amount recognized	**$ 107**	$ 23

(e) Components of net periodic benefit cost

In millions *Year ended December 31,*	**1999**	1998	1997
Service cost	**$ 95**	$ 60	$ 50
Interest cost	**632**	642	605
Expected return on plan assets	**(732)**	(700)	(657)
Amortization of net transition obligation	**19**	108	100
Amortization of prior service cost	**20**	42	32
Recognized net actuarial (gain) loss	**23**	(95)	(80)
Net periodic benefit cost	**$ 57**	$ 57	$ 50

(f) Weighted-average assumptions

December 31,	**1999**	1998	1997
Discount rate	**7.00%**	7.50%	7.50%
Rate of compensation increase	**4.25%**	4.25%	4.25%
Expected return on plan assets for year ending December 31	**9.00%**	9.00%	8.25%

As at December 31, 1998, one of the Company's pension plans had an accumulated benefit obligation ($114 million) in excess of the fair value of the plan assets ($102 million) which gives rise to additional minimum pension liability. The projected benefit obligation was $119 million at December 31, 1998.

14 Special charge

The Company recorded a charge to operations of $590 million in 1998 for workforce reduction plans aimed at reducing future operating costs and increasing productivity. The charge includes severance and other payments to be made for approximately 3,000 reductions (1,400 occurred in 1998; 1,300 occurred in 1999; and the remainder are to be made in 2000). Labor productivity and operating efficiency initiatives span the entire organization with reductions in the administration, transportation, engineering and equipment functions. The majority of payments related to workforce reductions are expected to occur throughout the next six years.

15 Interest expense

In millions *Year ended December 31,*	**1999**	1998	1997
Interest on long-term debt	**$313**	$259	$122
Interest on short-term borrowings	**–**	2	2
Interest income	**(5)**	(17)	(6)
Total continuing operations	**$308**	$244	$118
Cash interest payments for continuing operations	**$305**	$194	$110

16 Other income

In millions Year ended December 31,	1999	1998	1997
Gain on disposal of properties	$ 56	$ 51	$37
Investment income	12	12	9
Net rental loss	(25)	(20)	(8)
Foreign exchange gain (loss)	4	(9)	4
Income (loss) from Canac Inc.	1	5	(2)
Gain on sale of interest in joint venture	–	–	21
Other	(2)	(13)	(4)
	$ 46	$ 26	$57

17 Income taxes

The Company's income tax expense from continuing operations is as follows:

In millions Year ended December 31,	1999	1998	1997
Combined basic Canadian federal and provincial tax rate (combined basic tax rate)	44.4%	44.4%	44.4%
Income tax expense from continuing operations based on the combined basic tax rate	$(431)	$(51)	$(331)
Income tax (expense) recovery resulting from:			
Federal large corporations tax and other taxes	(12)	(18)	(10)
U.S. tax rate differential	30	–	–
Gain on disposal of properties	8	8	4
Equity in earnings of IC	–	38	–
Other	36	17	12
Income tax expense from continuing operations	$(369)	$ (6)	$(325)

Income tax (expense) recovery from continuing operations is represented by:			
Current	$ (45)	$(19)	$ (10)
Deferred	(324)	13	(315)
	$(369)	$ (6)	$(325)
Income tax recovery related to discontinued operations	$ –	$ –	$ 12
Cash payments for income taxes	$ 45	$ 18	$ 10

Significant components of deferred income tax assets and liabilities are as follows:

In millions December 31,	1999	1998
Deferred income tax assets		
Loss carryforwards	$ 39	$222
Workforce reduction provisions	266	352
Accruals and other reserves	186	79
Post-retirement benefits	89	56
	580	709
Deferred income tax liabilities		
Properties	2,685	296
	2,685	296
Total net deferred income tax asset (liability)	(2,105)	413
Net current deferred income tax asset	148	133
Net long-term deferred income tax asset (liability)	$(2,253)	$280

18 Discontinued operations

Consistent with the Company's plan to focus resources on operating a transportation network, in late 1997 the Company adopted a formal plan to exit its telecommunication business operated by a subsidiary. The 1997 loss from discontinued operations is comprised of $6 million, after tax, related to losses from this business and a $12 million after-tax provision for loss on disposal. The assets and liabilities of discontinued operations reflected in the Consolidated Balance Sheet are insignificant. The cash used by discontinued operations in 1997 was $20 million.

19 Segmented information

A. Geographic areas

The Company operates in one business segment with operations and assets in Canada and the United States.

B. Information on geographic areas

In millions *Year ended December 31,*	1999	1998	1997
Revenues:			
Canadian rail	$ 3,549	$ 3,523	$ 3,756
U.S. rail	1,712	578	557
	$ 5,261	$ 4,101	$ 4,313
Operating income:			
Canadian rail	$ 852	$ 222	$ 730
U.S. rail	381	25	77
	$ 1,233	$ 247	$ 807
Income (loss) from continuing operations:			
Canadian rail	$ 464	$ 138	$ 373
U.S. rail	138	(115)	48
Equity in earnings of IC	–	86	–
	$ 602	$ 109	$ 421
Depreciation and amortization:			
Canadian rail *(i)*	$ 212	$ 203	$ 192
U.S. rail	195	10	10
	$ 407	$ 213	$ 202
Capital expenditures: (ii)			
Canadian rail *(iii)*	$ 717	$ 545	$ 529
U.S. rail	249	70	48
	$ 966	$ 615	$ 577

In millions *December 31,*	1999	1998
Identifiable assets:		
Canadian rail	$ 6,662	$ 6,703
U.S. rail	8,079	343
Investment in IC	–	3,802
	14,741	10,848
Discontinued operations	16	16
	$14,757	$10,864

(i) Includes $7 million (1998: $3 million, 1997: $2 million) depreciation and amortization of properties related to net rental income and Canac Inc.

(ii) Represents additions to properties.

(iii) Includes $11 million (1998: $17 million, 1997: $5 million) of additions of properties related to net rental income and Canac Inc. This amount also includes non-cash capital expenditures financed with capital leases and capitalized depreciation.

20 Earnings per share

The 1998 and 1997 figures have been adjusted for the two-for-one stock split (see Note 11(D)).

Year ended December 31,	1999	1998	1997
Basic earnings per share (excluding special charge)			
Income from continuing operations	$3.02	$2.48	$2.48
Net income	$3.02	$2.48	$2.37
Weighted-average number of common shares outstanding *(in millions)*	197.3	183.1	170.1

21 Major commitments and contingencies

A. Leases

The Company's commitments as at December 31, 1999 under operating and capital leases totaling $893 million and $1,482 million, respectively, with annual net minimum payments in each of the five following fiscal years to 2005 and thereafter, are as follows:

Year *In millions*	Operating	Capital
2000	$ 169	$ 170
2001	154	179
2002	130	132
2003	102	132
2004	84	107
2005 and thereafter	254	762
	$ 893	1,482
Less: imputed interest on capital leases at rates ranging from approximately 3¾% to 14½%		577
Present value of minimum lease payments at current rate included in debt		$ 905

B. Other commitments

As at December 31, 1999, the Company had commitments to acquire locomotives and freight cars at an aggregate cost of $111 million, rail at a cost of $38 million, railroad ties at a cost of $39 million, automotive equipment at a cost of $18 million, and intermodal equipment at a cost of $1 million. Further, as at December 31, 1999, the Company had entered into car repair commitments totaling $18 million for the years 2000 to 2002 and into agreements with fuel suppliers to purchase approximately 47% of its anticipated 2000 volume at market prices prevailing on the date of the purchase.

C. Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions for such items which it considers to be adequate. While the final outcome with respect to actions outstanding or pending as at December 31, 1999 cannot be predicted

21 Major commitments and contingencies *(continued)*

with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position.

D. Environmental matters
The Company's operations are subject to federal, provincial, state, municipal and local regulations under environmental laws and regulations concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in the railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations. As a result, the Company incurs significant compliance and capital costs, on an ongoing basis, associated with environmental regulatory compliance and clean-up requirements in its railroad operations and relating to its past and present ownership, operation or control of real property.

While the Company believes that it has identified the costs likely to be incurred in the next several years, based on known information, for environmental matters, the Company's ongoing efforts to identify potential environmental concerns that may be associated with its properties may lead to future environmental investigations, which may result in the identification of additional environmental costs and liabilities. The magnitude of such additional liabilities and the costs of complying with environmental laws and containing or remediating contamination cannot be reasonably estimated due to:

(i) the lack of specific technical information available with respect to many sites;

(ii) the absence of any government authority, third-party orders, or claims with respect to particular sites;

(iii) the potential for new or changed laws and regulations and for development of new remediation technologies and uncertainty regarding the timing of the work with respect to particular sites;

(iv) the ability to recover costs from any third parties with respect to particular sites; and

therefore, the likelihood of any such costs being incurred or whether such costs would be material to the Company cannot be determined at this time. There can thus be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future or that the Company's liquidity will not be adversely impacted by such environmental liabilities or costs. Although the effect on operating results and liquidity cannot be reasonably estimated, management believes, based on current information, that environmental matters will not have a material adverse effect on the Company's financial condition or competitive position. Costs related to any future remediation will be accrued in the year in which they become known.

As at December 31, 1999, the Company had aggregate accruals for environmental costs of $96 million ($65 million as at December 31, 1998). During the year, $16 million was applied to the provision for environmental costs compared to $11 million in 1998 and $11 million in 1997. In addition, related environmental capital expenditures were $11 million in 1999, $13 million in 1998 and $13 million in 1997. The Company also expects to incur capital expenditures relating to environmental matters of approximately $15 million in 2000, $13 million in 2001 and $10 million in 2002. The Company has not included any reduction in costs for anticipated recovery from insurance.

22 Financial instruments

A. Risk management
The Company has limited involvement with derivative financial instruments in the management of its fuel, interest rate and foreign currency exposures, and does not use them for trading purposes.

(i) Credit risk
The Company is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments but does not expect such non-performance as counterparties are of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained; however, the credit standing of counterparties is regularly monitored. The total risk associated with the Company's counterparties was immaterial at December 31, 1999. The Company believes there are no significant concentrations of credit risk.

(ii) Interest rates
The Company uses derivative financial instruments from time to time to hedge the exposure to interest rate fluctuations on anticipated transactions.

In 1998, the Company hedged a portion of its exposure to interest rate risk on the issuance of U.S.$925 million of long-term debt associated with the IC acquisition by means of forward contracts and options. The hedging cost has been deferred and is being amortized over the term of the respective debt issues.

(iii) Foreign currency
Although the Company conducts a majority of its business and receives revenues primarily in Canadian dollars, a significant portion of its business is conducted and revenues are denominated in U.S. dollars. Thus, the Company's results are affected by fluctuations in the exchange rate between these currencies. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and thereby affect the Company's revenues.

The Company has entered into a forward exchange contract (currency swap) with respect to its 15-year Swiss franc bonds. This forward exchange contract acts as a hedge to effectively fix the amount of Canadian dollars required over the term of the debt to make all necessary payments in the foreign currency of issue. The Company has not

incurred any significant net gains or losses in respect of this transaction. Losses due to non-performance by the counterparty to its foreign currency swap are not anticipated.

In 1998, the Company designated all of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in IC. As a result, unrealized foreign exchange gains and losses, from the date of designation, on the translation of the Company's U.S. dollar denominated debt are included in Currency translation, along with the unrealized foreign exchange gains and losses on the translation of the Company's net investment in IC, which forms part of Shareholders' equity.

(iv) Fuel

The Company has a hedging program in place to mitigate the effects of fuel price changes on its operating margins and overall profitability. The Company has entered into various swaps and collar agreements to mitigate the risk of fuel price volatility. The Company also monitors its hedging positions and the credit ratings of its counterparties and does not anticipate losses due to counterparty non-performance. At December 31, 1999, the Company had hedged approximately 27% of the estimated 2000 fuel consumption. Unrecognized gains (losses) from the Company's fuel hedging activities amounted to approximately $9 million and $(8) million at December 31, 1999 and 1998, respectively.

B. Fair value of financial instruments

Generally accepted accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which the carrying amounts are included in the Consolidated Balance Sheet under the following indicated captions:

(i) Cash and cash equivalents, Accounts receivable, Accounts payable and accrued charges, and Other current liabilities:

The carrying amounts approximate fair value because of the short maturity of these instruments.

(ii) Other assets and deferred charges:

Investments: The Company has various debt and equity investments for which the carrying value approximates the fair value, with the exception of an investment for which the fair value was estimated based on CN's proportionate share of its accumulated earnings.

(iii) Long-term debt:

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity.

(iv) Convertible preferred securities:

The fair value of the Company's convertible preferred securities is estimated based on the quoted market price.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as at December 31, 1999 and 1998 for which the carrying values are not disclosed on the Consolidated Balance Sheet or for which the carrying amounts are different from the fair values:

In millions	***December 31, 1999***		*December 31, 1998*	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Investments	**$ 22**	**$ 42**	$ 51	$ 51
Financial liabilities				
Long-term debt (including current portion)	**$4,233**	**$4,106**	$4,143	$4,242
Other				
Convertible preferred securities	**$ 327**	**$ 281**	$ –	$ –

23 Reconciliation of Canadian and United States generally accepted accounting principles

The consolidated financial statements of Canadian National Railway Company are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), which conform, in all material respects, with those generally accepted in the United States, except as described below:

A. Reconciliation of net income

The application of U.S. GAAP would have the following effects on the net income as reported:

In millions *Year ended December 31,*	**1999**	1998	1997
Income from continuing operations – Canadian GAAP	**$602**	$109	$ 421
Adjustments in respect of:			
Property capitalization, net of depreciation	**253**	181	139
Compensation expense related to stock-based compensation	**(7)**	(13)	(17)
Interest on convertible preferred securities	**(9)**	–	–
Equity in earnings of IC	**–**	19	–
Foreign exchange	**–**	(15)	(43)
Pension and post-retirement benefit costs	**–**	11	9
Income tax expense	**(93)**	(68)	(40)
Income from continuing operations – U.S. GAAP	**746**	224	469
Discontinued operations	**–**	–	(18)
Cumulative effect of changes in accounting policy	**5**	42	589
Net income – U.S. GAAP	**$751**	$266	$1,040

(i) Property capitalization

Under Canadian GAAP, the Company capitalizes only the material component of track replacement costs, whereas effective January 1, 1997, under U.S. GAAP the labor, material and related overheads are capitalized. Furthermore, effective January 1, 1999, the Company capitalized under U.S. GAAP all major expenditures for work that extends the useful life and/or improves the functionality of bridges and other structures and freight cars. U.S. GAAP requires that the cumulative capitalization

23 Reconciliation of Canadian and United States generally accepted accounting principles *(continued)*

adjustment, including special charges (net of applicable income taxes), be reflected in net income in the year in which the policy is adopted ($62 million in 1999 and $589 million in 1997).

(ii) Stock-based compensation
U.S. GAAP requires the measurement and recognition of compensation expense related to certain stock-based compensation. The Company has accounted for stock-based compensation for U.S. GAAP purposes in accordance with APB 25, "Accounting for Stock Issued to Employees." The difference between compensation expense measured in accordance with APB 25 and the amount which would have been recognized under Statement of Financial Accounting Standards (FAS) 123, "Accounting for Stock-based Compensation," is not significant. There are no similar requirements under Canadian GAAP.

(iii) Convertible preferred securities
The convertible preferred securities are treated as equity under Canadian GAAP, whereas under U.S. GAAP, they are treated as debt. Consequently, the interest on the convertible preferred securities is treated as a dividend for Canadian GAAP but as interest expense for U.S. GAAP.

(iv) Equity in earnings of Illinois Central Corporation
Under Canadian GAAP, the Company capitalizes the material component of track replacement costs, whereas IC, under U.S. GAAP, capitalizes the labor, material and related overheads.

(v) Foreign exchange
U.S. GAAP requires immediate recognition in income of unrealized foreign currency exchange gains and losses on long-term monetary items with a fixed or ascertainable life, whereas Canadian accounting principles require that these unrealized gains and losses be deferred and amortized. In addition, under U.S. GAAP, future revenue streams from operations do not qualify as a hedge of long-term debt denominated in U.S. dollars.

(vi) Change in accounting policy – Pensions and post-retirement benefits other than pensions
In 1999, the Company adopted the CICA recommendations related to the accounting for employee future benefits, essentially to harmonize Canadian GAAP with U.S. GAAP.

Prior to 1999, the Company measured its pension benefit and post-retirement benefit obligations, for Canadian GAAP purposes, using a discount rate based on management's best estimate of the long-term rate of return on the pension fund assets. Under U.S. GAAP, the discount rate to be used should reflect the rate at which the pension benefits and post-retirement benefit costs can be effectively settled at the date of the financial statements. The difference in discount rates impacted annual pension expense and post-retirement benefit costs prior to 1999.

In 1999, the Company changed its method of accounting for employee injury costs to reflect all elements of such costs (including compensation, health care and administration costs) based on actuarially developed estimates of the ultimate cost associated with employee injuries. U.S. GAAP requires that the cumulative adjustment, net of applicable income taxes, be reflected in net income in the year in which the policy is adopted ($57 million).

In addition, effective January 1, 1998, the Company changed its accounting policy for pension costs and adopted the corridor approach to account for experience gains and losses, as described in FAS 87, "Employers' Accounting for Pensions," and FAS 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions," thereby conforming the Company's accounting practices with industry practice. Accordingly, experience gains and losses within the specified corridor were not amortized in 1998. U.S. GAAP requires that the cumulative effect of a change in accounting policy (net of applicable income taxes) be reflected in net income in the year in which the policy is adopted ($42 million).

B. Earnings per share
In 1997, the Company retroactively adopted FAS 128, "Earnings per Share," for computing and presenting earnings per share.

(i) Basic earnings per share

Year ended December 31,	**1999**	1998	1997
Income from continuing operations – U.S. GAAP	**$3.78**	$1.22	$ 2.75
Discontinued operations	–	–	(0.11)
Cumulative effect of changes in accounting policy	**0.03**	0.23	3.47
Net income – U.S. GAAP	**$3.81**	$1.45	$ 6.11
Weighted-average number of common shares outstanding *(in millions)* – U.S. GAAP	**197.3**	183.1	170.1

(ii) Diluted earnings per share
U.S. GAAP requires the use of the treasury stock method for common stock equivalents to compute the weighted-average number of common shares outstanding for the period. The use of the treasury stock method has been considered in the diluted earnings per share figures as computed under U.S. GAAP.

Year ended December 31,	**1999**	1998	1997
Income from continuing operations – U.S. GAAP	**$3.71**	$1.21	$ 2.72
Discontinued operations	–	–	(0.11)
Cumulative effect of changes in accounting policy	**0.03**	0.23	3.42
Net income – U.S. GAAP	**$3.74**	$1.44	$ 6.03
Weighted-average number of common shares outstanding *(in millions)* – U.S. GAAP	**202.5**	184.8	172.4

(iii) Pro forma earnings per share

The following earnings per share figures assume that all accounting policy changes were applied retroactively.

In millions, except per share data *Year ended December 31,*	1999	1998	1997
Income from continuing operations – U.S. GAAP	**$ 746**	$ 214	$ 484
Basic earnings per share	**$3.78**	$1.17	$2.85
Diluted earnings per share	**$3.71**	$1.16	$2.81
Net income – U.S. GAAP	**$ 746**	$ 214	$ 466
Basic earnings per share	**$3.78**	$1.17	$2.74
Diluted earnings per share	**$3.71**	$1.16	$2.70

(iv) Earnings per share (excluding special charge)

Earnings per share excluding special charge as disclosed in Note 20 would not be presented under U.S. GAAP.

C. Reconciliation of significant balance sheet items

(i) Employee share purchase loans

Amounts receivable under employee share purchase loans are included in Other current assets and Other assets and deferred charges for Canadian GAAP purposes. For U.S. GAAP purposes, these amounts would be classified as a reduction of Shareholders' equity.

(ii) Joint ventures

Interests in joint ventures are accounted for using the proportionate consolidation method for Canadian GAAP. Under U.S. GAAP, joint ventures are accounted for using the equity method.

(iii) Shareholders' equity

As permitted under Canadian GAAP, the Company eliminated its accumulated deficit of $811 million as of June 30, 1995 through a reduction of the capital stock in the amount of $1,300 million, and created a contributed surplus of $489 million. Such a reorganization within Shareholders' equity is not permitted under U.S. GAAP.

Under Canadian GAAP, the dividend in kind declared in 1995 (with respect to land transfers) and other capital transactions were deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Retained earnings.

Under Canadian GAAP, costs related to the sale of shares have been deducted from Contributed surplus. For U.S. GAAP purposes, these amounts would have been deducted from Capital stock.

For Canadian and U.S. GAAP purposes, the Company designated all of its U.S. dollar denominated long-term debt as a foreign exchange hedge of its net investment in IC. Under Canadian GAAP, the resulting net unrealized foreign exchange gain, from the date of designation, has been included in Currency translation. For U.S. GAAP purposes, the resulting net unrealized foreign exchange gain as well as a minimum pension liability adjustment would have been included as part of Other comprehensive income in the Consolidated Statement of Comprehensive Income and Accumulated other comprehensive income, a separate component of Shareholders' equity, as required under FAS 130, "Reporting Comprehensive Income."

(iv) Accounting changes

In 1999, the Company adopted the CICA recommendations related to the accounting for employee future benefits. Specifically, the standard outlines guidance for the accounting for pension, post-retirement and workers' compensation costs. In accordance with the transitional provisions of the new standard, the Company has applied the recommendations retroactively but has not restated comparative periods. The cumulative effect of the adoption of the new standard of $17 million ($9 million after tax) has been reflected as an adjustment to opening retained earnings.

(v) Convertible preferred securities

The convertible preferred securities are treated as equity under Canadian GAAP, whereas under U.S. GAAP, they are treated as debt. Consequently, the costs related to the issuance of the convertible preferred securities are, for Canadian GAAP purposes, treated as an equity transaction and netted against the consideration received while under U.S. GAAP, the costs are reported as deferred charges and amortized over the term to maturity.

(vi) The application of U.S. GAAP would have a significant effect on the following balance sheet items as reported:

In millions *December 31,*	1999	1998
Current assets – Canadian GAAP	**$ 1,527**	$1,050
Joint ventures and other	**(8)**	(7)
Employee share purchase loans receivable	**(2)**	(3)
Deferred income taxes	**(2)**	(2)
Current assets – U.S. GAAP	**$ 1,515**	$1,038
Properties – Canadian GAAP	**$12,863**	$5,442
Property capitalization, net of depreciation and including cumulative effect of change in accounting policy	**1,775**	1,380
Joint ventures	**(32)**	(34)
Other	**14**	15
Properties – U.S. GAAP	**$14,620**	$6,803
Investment in Illinois Central Corporation – Canadian GAAP	**$ –**	$3,802
Property capitalization	**–**	19
Investment in Illinois Central Corporation – U.S. GAAP	**$ –**	$3,821
Other assets and deferred charges – Canadian GAAP	**$ 367**	$ 290
Unrealized exchange loss on long-term debt	**(79)**	(82)
Joint ventures and other	**(5)**	(4)
Deferred pension asset, including cumulative effect of change in accounting policy	**–**	86
Debt issue costs	**12**	–
Other assets and deferred charges – U.S. GAAP	**$ 295**	$ 290
Current liabilities – Canadian GAAP	**$ 1,777**	$1,392
Joint ventures and other	**(13)**	(12)
Current liabilities – U.S. GAAP	**$ 1,764**	$1,380

23 Reconciliation of Canadian and United States generally accepted accounting principles *(continued)*

In millions *December 31,*	1999	1998
Deferred income tax (asset) liability – Canadian GAAP	$2,253	$ (280)
Property capitalization – cumulative effect of change in accounting policy	533	471
Joint ventures and other	(3)	(2)
Cumulative effect of prior years' adjustment to income	99	40
Income taxes on current year U.S. GAAP adjustments	93	68
Deferred pension asset – cumulative effect of change in accounting policy	–	30
Deferred income tax liability – U.S. GAAP	$2,975	$ 327
Other liabilities and deferred credits – Canadian GAAP	$1,260	$1,172
Stock-based compensation	28	40
Joint ventures and other	(1)	(7)
Other liabilities and deferred credits – U.S. GAAP	$1,287	$1,205
Long-term debt – Canadian GAAP	$3,961	$4,009
Joint ventures	(13)	(14)
Long-term debt – U.S. GAAP	$3,948	$3,995
Capital stock – Canadian GAAP	$3,311	$2,873
Capital reorganization	1,300	1,300
Employee share purchase loans receivable	(2)	(3)
Costs related to the sale of shares	(33)	(33)
Stock-based compensation	21	4
Capital stock – U.S. GAAP	$4,597	$4,141
Convertible preferred securities – Canadian GAAP	$ 327	$ –
Debt issue costs	12	–
Unrealized exchange gain on convertible preferred securities	(5)	–
Convertible preferred securities (classified as debt) – U.S. GAAP	$ 334	$ –
Contributed surplus – Canadian GAAP	$ 190	$ 190
Capital reorganization	(489)	(489)
Dividend in kind with respect to land transfers	248	248
Costs related to the sale of shares	33	33
Other transactions and related income tax effect	18	18
Contributed surplus – U.S. GAAP	$ –	$ –
Currency translation – Canadian GAAP	$ (9)	$ 7
Unrealized exchange gain on convertible preferred securities, net of applicable taxes	3	–
Minimum pension liability adjustment	–	(1)
Accumulated other comprehensive income (loss) – U.S. GAAP	$ (6)	$ 6

In millions *December 31,*	1999	1998
Retained earnings – Canadian GAAP	$1,687	$1,221
Capital reorganization	(811)	(811)
Dividend in kind with respect to land transfers	(248)	(248)
Other transactions and related income tax effect	(18)	(18)
Dividend on convertible preferred securities	9	–
Current year adjustments to net income	149	157
Cumulative effect of prior years' adjustments to income	754	597
Employee future benefits – cumulative effect of change in accounting policy	9	–
Retained earnings – U.S. GAAP	$1,531	$ 898

D. Post-retirement benefits other than pensions

In 1999, the Company adopted the CICA recommendations related to the accounting for employee future benefits, essentially to harmonize Canadian GAAP with U.S. GAAP as it relates to Post-retirement benefits other than pension costs. The Company has applied the recommendations retroactively but has not restated comparative periods. In 1998, the disclosures required by FAS 132, "Employers' Disclosures about Pensions and Other Post-retirement Benefits," were as follows:

(i) Change in benefit obligation

In millions *Year ended December 31,*	1998
Benefit obligation at beginning of year	$132
Service cost	4
Interest cost	11
Foreign currency changes	2
Actuarial loss	30
Benefits paid	(7)
Benefit obligation at end of year	$172

(ii) Funded status

In millions *December 31,*	1998
Unfunded benefit obligation at end of year	$172
Unrecognized net actuarial loss	(22)
Unrecognized prior service cost	(5)
Accrued benefit cost for post-retirement benefits other than pensions	$145

(iii) Components of net periodic benefit cost

In millions *Year ended December 31,*	1998	1997
Service cost	$ 4	$ 3
Interest cost	11	7
Amortization of prior service cost	1	1
Recognized net actuarial (gain) loss	1	(2)
Net periodic benefit cost	$ 17	$ 9

(iv) Weighted-average assumptions

December 31,	1998	1997
Discount rate	6.00%	7.44%
Rate of compensation increase	4.25%	4.50%

E. Pension costs and obligation

In 1999, the Company adopted the CICA recommendations related to the accounting for employee future benefits, essentially to harmonize Canadian GAAP with U.S. GAAP as it relates to pension costs and obligation. The Company has applied the recommendations retroactively but has not restated comparative periods. In 1998, the disclosures required by FAS 132 were as follows:

(i) Change in benefit obligation

In millions *Year ended December 31,*	1998
Benefit obligation at beginning of year	$ 9,151
Amendments	212
Service cost	81
Interest cost	629
Plan participants' contributions	76
Foreign currency changes	7
Effect of curtailment	23
Actuarial loss	1,006
Benefit payments and transfers	(645)
Benefit obligation at end of year	$10,540

(ii) Change in plan assets

In millions *Year ended December 31,*	1998
Fair value of plan assets at beginning of year	$ 9,984
Actual return on plan assets	1,229
Employer contributions	77
Plan participants' contributions	76
Foreign currency changes	7
Benefit payments and transfers	(645)
Fair value of plan assets at end of year	$10,728

(iii) Funded status

In millions *December 31,*	1998
Excess of fair value of plan assets over benefit obligation at end of year	$ 188
Unrecognized net actuarial gain	(372)
Unrecognized net transition obligation	96
Unrecognized prior service cost	193
Net amount recognized	$ 105

(iv) Amount recognized in the Consolidated Balance Sheet

In millions *December 31,*	1998
Prepaid benefit cost	$ 112
Accrued benefit cost	(7)
Additional minimum liability	(5)
Intangible asset	3
Accumulated other comprehensive income	2
Net amount recognized	$ 105

(v) Components of net periodic benefit cost

In millions *Year ended December 31,*	1998	1997
Service cost	$ 81	$ 51
Interest cost	629	613
Expected return on plan assets	(701)	(657)
Amortization of net transition obligation	21	20
Amortization of prior service cost	20	2
Recognized net actuarial loss	–	12
Net periodic benefit cost	$ 50	$ 41

(vi) Weighted-average assumptions

December 31,	1998	1997
Discount rate	6.00%	6.50%
Rate of compensation increase	4.25%	4.50%
Expected return on plan assets for year ending December 31	9.00%	8.25%

As at December 31, 1998, one of the Company's pension plans had an accumulated benefit obligation ($114 million) in excess of the fair value of the plan assets ($102 million) which gives rise to additional minimum pension liability. The projected benefit obligation was $119 million at December 31, 1998.

24 Illinois Central Railroad Company consolidated financial information

The Company has fully and unconditionally guaranteed certain publicly issued debt of Illinois Central Railroad Company (ICRR). Consequently, the Company has not presented separate financial statements and other disclosures, other than those presented below, because management has determined that such information is not material to the holders of ICRR debt.

Summary financial information for ICRR, on its historical cost basis, prepared in accordance with U.S. GAAP, for the years ended December 31, 1999, 1998 and 1997, and as at December 31, 1999 and 1998, is presented below.

Illinois Central Railroad Company
Condensed Consolidated Statement of Income

In millions of U.S.$ *Year ended December 31,*	1999	1998	1997
Revenues	$670	$651	$623
Operating expenses	529	444	395
Operating income	141	207	228
Other income	6	13	6
Interest expense	(48)	(28)	(28)
Income before income taxes	99	192	206
Income tax expense	(37)	(71)	(70)
Net income	$ 62	$121	$136

24 Illinois Central Railroad Company consolidated financial information *(continued)*

Operating expenses for the years ended December 31, 1999 and 1998 include a special charge for workforce reductions and compensation payments related to the merger of U.S.$46 million and U.S.$28 million, respectively.

The year ended December 31, 1999 also includes a charge of U.S.$25 million primarily related to litigation settlements and casualty claims.

Illinois Central Railroad Company
Condensed Consolidated Balance Sheet

In millions of U.S.$ *December 31,*	1999	1998
Assets		
Current assets	$ 220	$ 218
Non-current assets	1,735	1,667
Total assets	$1,955	$1,885
Liabilities and stockholders' equity		
Current liabilities	$ 282	$ 271
Payable to affiliate	578	–
Long-term debt	512	544
Deferred income taxes	337	334
Other liabilities and reserves	171	109
Stockholders' equity	75	627
Total liabilities and stockholders' equity	$1,955	$1,885

25 Comparative figures

Certain figures, previously reported for 1998 and 1997, have been reclassified to conform with the basis of presentation adopted in the current year.

The CN Pension Plan and the CN 1935 Pension Plan

General review

Trustee

Montreal Trust Company of Canada (Montreal Trust) is the Trustee of the Canadian National Railways Pension Trust Funds (CN Pension Trust Funds, or Funds). As Trustee, Montreal Trust performs certain duties which include holding legal title to the assets of the Funds and ensuring that Canadian National Railway Company (CN), as Administrator, complies with the provisions of the CN Pension Plan, the CN 1935 Pension Plan and the Pension Benefits Standards Act, 1985 and its Regulations. The checks and direct deposit statements in respect of these plans are issued in the name of Montreal Trust, Trustee of the CN Pension Trust Funds.

Administration of the pension plans

Overall accountability for the pension and benefit administration is the responsibility of CN. William M. Mercer Limitée, an employee benefits consulting firm, performs agreed-on pension and benefit administration services on behalf of CN.

Indexation agreement

As a result of the indexation agreement negotiated with the railroad unions in 1989, and improvements to such agreement negotiated in 1992 and 1998, approximately 42,200 retirees and surviving spouses received permanent pension increases in 1999. These increases amounted to 0.72% on the first $2,250 of the basic CN monthly pension, with a guaranteed minimum monthly pension increase of $9.00 for eligible retirees and $4.50 for eligible surviving spouses.

Under this indexation agreement, effective January 1, 1989, 50% of the experience gains or losses related to pensioners are accounted for separately in the Escalation Account. These net experience gains are used exclusively to pay for indexation of pensions above the minimum up to the maximum annual amount. The maximum annual indexation for eligible retirees and survivors is 60% of the increase in the Consumer Price Index (CPI) to a maximum increase in CPI of 6%, with an annual limit on the amount of pension which can be indexed. In 1999, the basic eligibility requirements to qualify for indexation were to have been retired for five complete calendar years and to have reached age 60.

Improvement accounts

Effective January 1, 1998, the unions and the Company agreed to share the experience gains (losses) resulting from investment earnings related to active unionized members of the CN Pension Plan, based on the same concept as the indexation agreement. Under this agreement, annual calculations will determine the amounts of the experience gains (losses) to be credited (debited) to an account referred to as an Improvement Account, and the balance of such account, if positive, may be used to improve benefits of unionized active members or reduce their contributions, as recommended by the Pension Committee and approved by CN's Board of Directors. The Improvement Account concept was also extended to non-unionized members, and separate accounts were created for unionized and non-unionized members.

As part of the agreement, CN allocated a starting balance of $45 million and $12 million to the unionized and non-unionized Improvement Accounts, respectively.

The costs of the increased benefit formula to active members as of January 1, 1999, from 1.4%/2.0% to 1.5%/2.0%, applicable to service prior to January 1, 2000, were charged to the Improvement Accounts as of December 31, 1998.

Annual pension statements

As required by the Pension Benefits Standards Act, 1985 and to keep employees who are members updated annually on their personal entitlement, personalized pension statements were prepared as at December 31, 1998 and distributed by June 1999.

Services to pensioners

A. Direct deposit:

The Direct Deposit System (DDS) is available to all retirees and survivors. Under this system, the monthly pension benefit is deposited directly into the individual's personal account. An itemized pension pay stub is sent to that individual initially, each January and whenever the gross or net amount changes. About 42,000 pensioners used this service in 1999.

B. Toll-free help lines:

Approximately 55,550 calls were handled in 1999 through the central toll-free help line (1-800-361-0739). Staff handling the toll-free telephone line have ready access to records and information required for quick, efficient and accurate responses to most callers' needs, in both of Canada's official languages.

Trustee's report

To the Administrator and the Members of the CN Pension Plan and the CN 1935 Pension Plan

We, Montreal Trust Company of Canada, are the Trustee of the Canadian National Railways Pension Trust Funds ("CN Pension Trust Funds").

As Trustee, we have appointed KPMG LLP to examine the systems, procedures and internal controls used in respect to the custody, investment and administration of the assets of the CN Pension Trust Funds, the administration of the CN Pension Plan, the CN 1935 Pension Plan ("1935 Plan"), and the performance of Canadian National Railway Company ("CN") as Administrator of the CN Pension Plan and the 1935 Plan for the year ended December 31, 1999.

Our examination included such tests and procedures as were considered necessary in the circumstances taking into consideration the requirements of the Trust Deeds and our experience in the Canadian pension industry.

In our opinion, based on the reasonable, but not absolute, degree of assurance obtained from the examination performed, the aforementioned systems, procedures and internal controls used by CN as Administrator, operated effectively during the year ended December 31, 1999, and complied with the objectives of the Pension Benefits Standards Act, 1985 and its Regulations.

Montreal Trust Company of Canada
Trustee of the Canadian National Railways
Pension Trust Funds

Montreal, January 25, 2000

Actuary's report

To the Board of Directors
Canadian National Railways Pension Trust Funds

We have conducted actuarial valuations for funding purposes as at December 31, 1998 for the CN Pension Plan and the CN 1935 Pension Plan.

As at December 31, 1998, these valuations revealed a consolidated actuarial liability of $8,963 million, a consolidated surplus of $4 million and required consolidated Company contributions representing $59 million in 1999. The next actuarial valuations will be conducted as at December 31, 2001, at the latest.

In my opinion, for the purposes of the valuations,

- the data on which these valuations were based were sufficient and reliable;
- the assumptions are, in aggregate, appropriate; and
- the methods employed in the valuations are appropriate.

We have also conducted actuarial valuations for accounting purposes as at December 31, 1998 for the CN Pension Plan and the CN 1935 Pension Plan.

These valuations were made in accordance with the requirements of Section 3461 of the Handbook of the Canadian Institute of Chartered Accountants (CICA). They revealed a consolidated actuarial liability of $10,412 million.

The difference between the results of the actuarial valuations conducted for funding purposes and those conducted for accounting purposes is mainly due to the CICA 3461 requirement to use an interest rate inherent in the amount at which the actuarial liability could be settled at the date of valuation.

Both valuations have been prepared and, my opinions given, in accordance with accepted actuarial practice.

Bernard Morency
Fellow of the Canadian Institute of Actuaries
William M. Mercer Limitée

Montreal, January 25, 2000

Auditors' report

To the Board of Directors of
Canadian National Railway Company

We have audited the consolidated statement of net assets of the CN Pension Plan and the CN 1935 Pension Plan as at December 31, 1999 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the CN Pension Plan and the CN 1935 Pension Plan as at December 31, 1999 and the changes in their net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants

Montreal, Canada
January 25, 2000

Consolidated Statement of Net Assets at Market Value

In millions	*As at December 31,* 1999	1998
Bonds	$ 2,969	$ 4,212
Mortgages	264	209
Real estate	322	448
Oil and gas	241	204
Equities	7,639	5,459
Cash and short-term investments	207	61
	11,642	10,593
Receivable from Canadian National Railway Company	5	5
Net other assets	17	18
	$11,664	$10,616

On behalf of the Board:

David G.A. McLean
Director

Paul M. Tellier
Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets at Market Value

In millions *Year ended December 31,*	1999	1998
Net assets at market value, beginning of year	$10,616	$ 9,874
Investment income		
Bonds	225	246
Mortgages	17	14
Real estate	9	9
Oil and gas	21	15
Equities	65	67
Short-term investments	6	13
	343	364
Less administrative expenses	(13)	(11)
Investment income before gains (losses) on sales of investments	330	353
Gains (losses) on sales of investments	(44)	407
Total investment income	286	760
Unrealized appreciation in value of investments	1,276	463
Contributions		
Employees	73	76
Company	59	77
Total contributions	132	153
Disbursements for members		
Pension benefits paid	(591)	(568)
Refunds	(52)	(58)
Total disbursements for members	(643)	(626)
Transfers	(3)	(8)
Net increase	1,048	742
Net assets at market value, end of year	$11,664	$10,616

See accompanying notes to consolidated financial statements.

1 Description of plans

These consolidated financial statements cover two pension plans, the CN Pension Plan and the CN 1935 Pension Plan (CN Plans), and include the accounts of the Canadian National Railways Pension Trust Funds and its wholly owned companies. All references in these financial statements to the "Company" refer to Canadian National Railway Company, which is the Administrator of the CN Plans. The CN 1935 Pension Plan is for a closed group of members and represents less than 1% of the pension obligation of the plans. Therefore, the following is a summarized description of the CN Pension Plan only. Please refer to the rules of the CN Pension Plan for additional information.

A. General

The CN Pension Plan (Plan) is a contributory defined benefit pension plan generally applicable for new employees from the first day of employment. Under this Plan, employees contribute between 5.48% and 5.88% of earnings up to the Year's Maximum Pensionable Earnings (YMPE) under the Canada or Quebec Pension Plan and between 6.98% and 7.38% of earnings in excess of the YMPE up to a maximum of $6,076 in 1999. Participants are not required to make contributions after 35 years of pensionable service. Company contributions are determined on the basis of actuarial valuations done at least on a triennial basis in accordance with the requirements of the Pension Benefits Standards Act, 1985 and Regulations thereunder.

B. Pensions

Pensions are based on the employee's average pensionable earnings for the best five consecutive calendar years or the last 60 months of employment at the rate of 2% for each year of pensionable service prior to January 1, 1966, 1.5% for each year of pensionable service thereafter up to the average YMPE over the last 60 months, and 2% of the excess of such average pensionable earnings over the average YMPE. The maximum annual pension payable is $1,715 multiplied by the pensionable service of the member. Pensionable service is limited to 35 years.

C. Retirement age

The normal retirement age is 65. However, employees with 85 points (age plus pensionable service) and the Company's consent are entitled to an early retirement pension without reduction as long as they are at least 55 years of age. Furthermore, employees with less than 85 points can retire anytime from age 55 with a reduction in their pension of 0.5% for each month (6% per year) between their date of retirement and their 65th birthday.

D. Disability pensions

A member with 10 years of pensionable service who is either declared unfit to perform his/her usual employment with the Company due to a permanent disability which occurred prior to 1992, or is declared totally and permanently disabled due to a disability which occurred after 1991, may apply for an immediate unreduced pension. Any declarations in respect of a member's disability are the responsibility of CN's Chief Medical Officer.

E. Pre-retirement survivors' pensions and death refunds

A survivor's pension is payable to the eligible spouse of a member who had a minimum of two years of plan membership upon his/her death. Otherwise, a death refund is payable to the spouse, or if there is no spouse, to the estate of the member.

F. Post-retirement survivors' pensions and estate settlements

Upon the death of a retiree who had an eligible spouse at retirement, either 55% or 60% of the basic pension of the retiree is payable to that spouse during his/her lifetime depending on the option elected at retirement. The survivor pension is guaranteed for the first 10 years after retirement. If the retiree and the surviving spouse, if any, die in the first 10 years after retirement, the survivor pension will be payable to the estate of the retiree until the 10-year period is over.

G. Termination benefits

Upon termination of service, a member is entitled to either his/her contributions with interest or to the value of his/her benefits accrued under the Plan or to a deferred pension or a combination of the above, depending on his/her age, pensionable service and years of membership at termination.

H. Income taxes

The Plan is registered under the Income Tax Act and Regulations. Contributions to the Plan are tax deductible, and investment income of the Canadian National Railways Pension Trust Funds is not taxable in Canada. Investment income from some foreign countries is subject to withholding taxes which are either fully or partially recovered.

2 Summary of significant accounting policies

A. Basis of presentation

These consolidated financial statements are prepared on a market value basis in accordance with generally accepted accounting principles in Canada for pension plans, which require management to make estimates and assumptions that affect the reported amounts at the date of the financial statements. Actual results could differ from these estimates. These statements present the aggregate financial position of the CN Plans as a separate financial reporting entity, independent of the sponsor and plan members, and are prepared to assist plan members and others in reviewing the activities of the CN Plans for the year, but they do not portray the funding requirements of the Plans or the benefit security of individual members.

Certain of the figures reported for 1998 have been reclassified to conform with the basis of presentation adopted for the current year.

B. Valuation of net assets

Market value is determined using publicly quoted prices where available. When such prices are not available, market values are estimated on the basis of: the present value of estimated future net cash flows, the market value of comparable assets, or the breakup value of underlying assets.

Valuation of net assets by category is as follows:

(i) Bonds are valued using the closing market bid as at December 31.

(ii) Mortgages are valued using current market yields of financial instruments of similar maturity and at appropriate spreads from instruments of comparable quality.

(iii) Real estate consists of land, buildings and equities. Land is valued using the market value of comparable assets, and buildings are valued using the present value of estimated future net cash flows and the market value of comparable assets. Independent valuations of land and buildings are performed triennially. Equities are valued using closing market quotations as at December 31.

(iv) Oil and gas reserves are valued using the present value of estimated future net cash flows, which are based on projected production, prices and costs. Land is valued using the market value of comparable assets. Trust units are valued using the closing market price as at December 31.

(v) Equities are valued using the closing market price as at December 31.

(vi) Short-term investments and other assets are valued at cost, which approximates market value.

(vii) Listed derivative financial instruments are valued using the market settlement price as at December 31. Unlisted derivative financial instruments are valued using the present value of future net cash flows determined by using closing market levels and interest rates for instruments of similar maturity and credit risk.

C. Income recognition

Dividends are accrued on the ex-dividend date; income from other investments is accrued as earned. Gains or losses on sales of investments are recognized on the dates of sales and are calculated on the basis of the average cost of the assets.

D. Foreign exchange

Investments denominated in foreign currencies are translated using current rates as at December 31 or at the forward foreign exchange contract rates for investments that are hedged. Foreign dividends and interest income are translated at the rates prevailing when accrued.

E. Change in market value

The change in market value has been segregated in the Consolidated Statement of Changes in Net Assets at Market Value between gains or losses on the sales of investments during the year and the unrealized appreciation in the value of investments, which is the balance of the change in market value of investments for the year.

F. Contributions

Contributions from employees are recorded in the period in which the Company makes payroll deductions. The contributions from the Company, as determined by the latest actuarial valuations, are recorded using the accrual method.

G. Transfers

Transfers to/from other funds are accounted for in the period in which the value of the transfers can be reasonably estimated.

3 Investments

All investments are securities, assets or financial instruments where the Plans' original intention is to hold to maturity or until market conditions render alternative investments more attractive. Significant terms and conditions of investments as at December 31 are as follows:

Bonds, 80% (75% in 1998) of which are issued or guaranteed by Canadian or U.S. governments, 8% (16% in 1998) by corporations, and 12% (9% in 1998) by supranational agencies, have a market weighted-average coupon of 6.7% (7.9% in 1998). Maximum term is 30 years (31 years in 1998) with an average term of 7.6 years (12.9 years in 1998).

Mortgages, secured by real estate, have a market weighted-average coupon of 7.9% (7.9% in 1998). Maximum term is 25 years (24 years in 1998), with an average term of 8.8 years (9.0 years in 1998).

Equities are diversified by issuer, industry and by country. Canadian domiciled companies represent 43% (37% in 1998) of the equity portfolio, and allocations to individual issuers or industry sectors are limited to 6.7% and 26.2% (2.7% and 13.7% in 1998), respectively.

Short-term investments, primarily securities issued by the Government of Canada and Canadian chartered banks, have an average term of 20 days (5 days in 1998) and an average yield of 4.7% (5.0% in 1998).

Derivatives are financial instruments whose value is derived from interest rates, foreign exchange rates, equity or commodity prices. Derivatives include forwards, futures, swaps and options.

From time to time, the CN Plans use derivatives for asset mix management purposes or to hedge the exposure to foreign currency, interest rate or market risks of the portfolio or anticipated transactions.

3 Investments *(continued)*

Notional amounts of derivative contracts by risk category affected were as follows:

In millions *As at December 31,*	1999	1998
Foreign currency	$1,734	$1,189
Interest rate	999	445
Equity and commodity	14	–

The weighted-average term of the above contracts was 78 days (47 days in 1998). The value of derivative instruments is $6.9 million ($9 million in 1998) and is included in the values of bonds and equities, which are the asset classes affected.

The interest rate derivative contracts extend the average duration of the bond portfolio by 2.3 years to 6.9 years (7.4 years in 1998).

4 Credit risk

Credit risk arises from the potential for an investee to fail or a counterparty to default on its contractual obligations to the Plans.

In accordance with formally established policies, the Plans manage credit risk by dealing with counterparties considered to be of high credit quality, utilizing an internal credit limit monitoring process as well as credit mitigation techniques such as master netting and collateral agreements.

At year-end, the Plans' most significant concentration of credit risk was with the Government of Canada, which issued or guaranteed $1,508 million ($2,312 million in 1998) of securities held by the Plans. Excluding the above, the remainder of assets are diversified with no other issuer accounting for more than 4.4% (2.4% in 1998) of total net assets.

The credit risk of derivative instruments is limited to the cost of replacing, at current market value, all contracts which have a positive value. The following table shows the credit risk of all derivative instruments outstanding at year-end.

Credit risk – Derivative instruments

In millions *As at December 31,*	1999	1998
Maximum exposure	$16	$10
Less effect of master netting and collateral agreements	(2)	(1)
Net credit risk	$14	$ 9

5 Funding policy

In respect of the CN Plans, the contributions by the Company are determined in accordance with the requirements of the Pension Benefits Standards Act, 1985 and Regulations thereunder and are based on the projected unit credit actuarial cost method, with projection of salaries where future salary changes affect the amount of the projected benefits. In the case of the CN 1935 Pension Plan, the Company makes money purchase contributions in accordance with the rules of the plan.

The latest actuarial valuations of the CN Plans were prepared by William M. Mercer Limitée as at December 31, 1998 and were submitted to the Superintendent of Financial Institutions and to Revenue Canada. In these actuarial valuations, the principal assumptions adopted by the Plans' actuary are: members' mortality, disability, retirement, termination of employment, merit and periodic increases in earnings, as well as a long-term rate of return of 7.5% per annum on investments. Future increases in members' earnings have been projected using economic assumptions consistent with this long-term rate of return.

6 Transfers

In 1999, the accounts include a provision for the amounts to be remitted to/from other funds to cover transfers of members of CN Plans to other pension plans and transfers of members of other plans to the CN Plans.

7 Consolidated actuarial pension obligation and asset value

The actuarial valuations as at December 31, 1998 revealed a consolidated actuarial liability of $10,412 million and a consolidated actuarial asset value of $8,967 million. The results of these valuations were then used to estimate the corresponding figures as at December 31, 1999, which approximate $9,834 million and $9,657 million, respectively, as at that date. The principal components of the change in the pension obligations are the interest accrued on benefits ($625 million in 1999 and $622 million in 1998), benefit payments and transfers ($646 million in 1999 and $634 million in 1998), benefits accrued during the year ($167 million in 1999 and $156 million in 1998), effect of curtailment loss (nil in 1999 and $23 million in 1998), plan amendment (nil in 1999 and $212 million in 1998) and actuarial gain (loss) ($724 million in 1999 and ($1,401) million in 1998). The consolidated actuarial liability was calculated in accordance with CICA Handbook Section 3461 using a discount rate of 6% as at December 31, 1998 and a discount rate of 7% as at December 31, 1999. The consolidated actuarial asset value is based on a market-related method which recognizes the change in market value over a period of five years using the straight-line method.

Board of Directors

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Canadian National Railway Company
Chairman and Chief Executive Officer
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Retired Partner
The Goldman Sachs Group
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Committees: 1, 6, 7

Purdy Crawford, O.C., Q.C., LL.D.
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AT&T Canada Corp. and Counsel, Osler, Hoskin & Harcourt
Toronto, ON
Committees: 2, 5*, 6, 7

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and Vice-Chairman
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James K. Gray, O.C., LL.D.
Chairman
Canadian Hunter Exploration Ltd.
Calgary, AB
Committees: 4, 5

E. Hunter Harrison
Executive Vice-President
and Chief Operating Officer
Canadian National Railway Company
Burr Ridge, IL

V. Maureen Kempston Darkes, O.C., D.Comm., LL.D.
President and General Manager
General Motors of Canada Limited
Toronto, ON
Committees: 1, 4

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Member of the Senate of Canada
Winnipeg, MB
Committees: 1, 5, 6*

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Private Investor and
Former Chairman of the Board
Illinois Central Corporation
New York, NY
Committees: 2, 7

Denis Losier
President and Chief Executive Officer
Assumption Life
Moncton, NB
Committees: 2, 6

The Honorable Edward C. Lumley, P.C., LL.D.
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Nesbitt Burns Inc.
Ottawa, ON
Committees: 2, 7

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The Beacon Group, LLC
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Committees: 4, 7

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The Pace Group
Halifax, NS
Committees: 1*, 4, 5

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Corporate Director and Former Chairman and Chief Executive Officer
The Bank of Nova Scotia
Toronto, ON
Committees: 1, 2, 6, 7*

Paul M. Tellier, P.C., C.C., Q.C., LL.D.
President and Chief Executive Officer
Canadian National Railway Company
Montreal, QC
Committees: 3*, 7

Committees:
1 Audit and finance
2 Corporate governance
3 Donations
4 Environment and safety
5 Human resources
6 Investment
7 Strategic planning
* denotes chairman of the committee

Officers of the Company

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Chairman of the Board

Paul M. Tellier
President and
Chief Executive Officer

Robert F. Dolan
Senior Vice-President
Corporate Services

James M. Foote
Senior Vice-President
Sales and Marketing

E. Hunter Harrison
Executive Vice-President and
Chief Operating Officer

Keith L. Heller
Senior Vice-President
Eastern Canada Division

Jack T. McBain
Senior Vice-President
Operations

Claude Mongeau
Senior Vice-President and
Chief Financial Officer

Jean Pierre Ouellet
Senior Vice-President,
Chief Legal Officer and
Corporate Secretary

Jeffrey C. Ward
Executive Vice-President
Strategic Planning

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Senior Vice-President
Public Affairs

William K. Berry
Vice-President
Intermodal

Cliff L. Carson
Vice-President
Commercial Development
Eastern Canada Division

Tullio Cedraschi
President and
Chief Executive Officer
CN Investment Division

John Dalzell
Vice-President
Risk Management

Richard Dixon
Vice-President
Labor Relations and
Employment Legislation

David P. Edison
Vice-President
Pacific Division

Sean Finn
Vice-President, Treasurer and
Principal Tax Counsel

Ross Goldsworthy
Vice-President
Grain and Fertilizers
Canada

Fred R. Grigsby
Vice-President and
Chief Information Officer

Edmond L. Harris
Vice-President
Midwest Division

Stan W. Jablonski
Vice-President
Forest Products

Kimberly A. Madigan
Vice-President
Human Resources
U.S. Operations

Peter C. Marshall
Vice-President
Prairie Division

J. Paul Mathieson
Vice-President
Network Operations

Terry R. McManaman
Vice-President
Gulf Division

Sandi J. Mielitz
Vice-President
Commercial Development
Prairie Division

Janice Murray
Chief
Internal Audit

Robert E. Noorigian
Vice-President
Investor Relations

Serge Pharand
Vice-President and
Corporate Comptroller

Jean-Jacques Ruest
Vice-President
Chemicals and Petroleum

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Vice-President
Government Affairs

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Vice-President
Operations Integration

Frank J. Trotter
President and
Chief Executive Officer
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C.T. Management Inc.

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Vice-President
Transportation

Howard L. Vaughters
Vice-President
Sales
Gulf Division

Dennis E. Waller
Vice-President
Engineering and Mechanical

Shareholder and Investor Information

Annual meeting
The annual meeting of shareholders will be held at 10:00 am on Wednesday, April 19, 2000 at the Sheraton Centre, Montreal, Quebec.

Annual information form
The annual information form may be obtained by writing to:

The Corporate Secretary
Canadian National Railway Company
935 de La Gauchetière Street West
Montreal, Quebec H3B 2M9

Transfer agent and registrar
The Trust Company of Bank of Montreal

Offices in:
Montreal, QC; Toronto, ON; Calgary, AB; Vancouver, BC

Co-transfer agent and co-registrar
Harris Trust Company of New York
88 Pine Street, 19th Floor
Wall Street Plaza
New York, NY 10005

U.S. Cash dividend plan
Shareholders wishing to receive dividends in U.S. dollars may obtain detailed information by communicating with:

The Trust Company of Bank of Montreal
Telephone: (514) 877-2584 or 1-800-332-0095

Stock exchanges
Canadian National common shares are listed on the Toronto and New York stock exchanges.

Ticker symbols:
CNR (Toronto Stock Exchange)
CNI (New York Stock Exchange)

Investor relations
Robert Noorigian
Vice-President, Investor Relations
Telephone: (514) 399-0052

Shareholder services
Shareholders having inquiries concerning their shares or wishing to obtain information about CN should contact:

The Trust Company of Bank of Montreal
Shareholder Services
129 Saint-Jacques Street
Level A North
Montreal, Quebec H2Y 1L6
Telephone: (514) 877-2584 or 1-800-332-0095

Head office
Canadian National Railway Company
935 de La Gauchetière Street West
Montreal, Quebec H3B 2M9

P.O. Box 8100
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